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ACCOUNTANCY

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PROFESSIONAL NOTES

Thanksgiving Week

During its Thanksgiving Week, London raised £143.8 million, thus exceeding by £18.8 million the target figure of £125 million. For the "Salute the Soldier" campaign of 1944, the target figure was as much as £165 million and total subscriptions amounted to £166.6 million. This much-needed savings drive—the first after an interval of fifteen months—will reverse the disquieting decline in subscriptions, and consequently more rapid credit expansion, of the past few months. In opening the campaign, the Chancellor stressed that savings are as necessary now as at any time during the war. Indeed, it is literally true that a savings campaign was more required than at any previous time. Ever since the collapse of Germany, there has been a marked decline in subscriptions to the tap issues both for large and for small savers, accompanied in the case of savings certificates by a sharp increase in withdrawals. As a result, *net* purchases of savings certificates amounted only to £18 million in the first five months of this financial year, against £80 million net in the corresponding period of 1944. Owing to the falling off in subscriptions to the tap issues, the Treasury has had to resort to a far greater extent to floating debt finance to meet the current deficit, no less than £450 million having been added to clearing bank deposits since the end of March, compared with only £173 million last year—and this although the deficit for the period was £224 million smaller.

In appealing for subscriptions, Mr. Dalton pointed out that investors may not again be offered such favourable terms, as "it may well be that in the future the rates of interest will be lower." This latter remark has revived the expectations of a cheap money drive temporarily dashed by the increase in the Defence Bonds limit from £1,000 to £1,500. The Chancellor suggested, too, that people will get much more for their money if they wait before trying to spend it, and issued a warning that the present effective price controls "could not completely withstand a very heavy pressure of new purchasing power." This is certainly one danger; but in practice one would have thought it more likely that the controls would hold but the accumulation of purchasing power delay their removal indefinitely. One of the chief arguments for a strong savings drive, indeed, is that until the present plethora of liquid funds is drawn off into savings media less likely to be drawn upon, one cannot even hope for the end of queues and rationing. At first sight the connection between savings, on the one hand, and queues and rationing, on the other hand, may not be strikingly apparent. Nevertheless, everybody will agree that queues and rationing are symptomatic of an excess of monetary demand over supply at existing prices; and such methods of ensuring equitable distribution cannot, therefore, be dispensed with until harmony is once again restored in the monetary position and prices are

at their equilibrium level. To abolish queues and rationing, accordingly, it is not only necessary that physical supplies should be increased by the return to peace-time production; even when supplies have been restored to normal, there would still be an excess of demand for many commodities so long as the present excess of purchasing power was overhanging the market.

London Members and Students

A joint programme of lectures and discussions has been arranged by the Incorporated Accountants' London and District Society and the Incorporated Accountants' Students' Society of London and District. Full details are given on page 21 of this issue. The seven meetings of the Autumn session cover a wide range of subjects of current professional interest. At the first meeting on September 18, a large audience heard an address on "The Income Tax Act, 1945," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A. The names of those who have consented to introduce the remaining topics are equally well known to many of our readers. They include not only Incorporated Accountants with considerable experience in imparting their specialised knowledge, but also two well-known City editors—Mr. O. R. Hobson and Mr. Francis Whitmore—and Mr. Andrew Clark, K.C.

We understand that the Committee of the London District Society is now planning suitable refresher courses for Incorporated Accountants returning to the profession after war service. These will be of longer duration than that which the Society of Incorporated Accountants is holding at Oxford in December. Those who are able to avail themselves of both will find the course being arranged by the London Society complementary to the shorter Incorporated Accountants' course.

"Financial Times" and "Financial News" Merger

An interesting event in the world of financial journalism has recently taken place. At the end of September the *Financial News* ceased publication and is now incorporated in the *Financial Times*. This follows the amalgamation recently arranged. The *Financial News*, Ltd., has acquired a controlling interest in the *Financial Times*, Ltd., from Lord Camrose and his family, at a price of 41s. 3d. per share, and the other stockholders of the *Financial Times*, Ltd., have received an offer for their holdings at this price. At the same time, the *Financial Times*, Ltd. (now controlled by *Financial News*, Ltd.) has agreed to pay £280,000 in cash for the copyright of the *Financial News*.

From a practical point of view, it may be that there will be convenience in the issue of one City financial daily. Further the extended facilities available to the *Financial Times* in its new form will doubtless lead to a more concentrated service of news and comment. But the substitution of one financial daily for the two interesting publications hitherto at the disposal of the City and the financial public

cannot but cause some feeling of regret, especially among those who have found in the two papers valuable sources of financial information and independent criticism. We desire cordially to acknowledge the past courtesies of the *Financial News* to ACCOUNTANCY, and to extend our good wishes to the amalgamated *Financial Times*. We are glad to know that the editorial staff of both papers will be represented on the future *Financial Times*, whose services we hope will be increasingly appreciated in relation to the future business and economic welfare of the country.

Net Maintainable Revenue

No indication having yet been given of the terms on which the Government proposes to acquire the Bank of England and the coal mining industry, considerable interest obviously attaches to the report of the T.U.C. Committee on the basis of compensation. The question has a special interest for accountants in that the problem is to arrive at a proper accounting basis. One obvious formula, "total capital expenditure less depreciation," is rejected by the T.U.C. report on the ground—apart from the difficulty of agreeing rates of depreciation—that it would give "a grossly inflated figure for railways, canals and similar undertakings whose economic value to the community is now low in relation to the figure of investment, much of which took place many years ago." No mention is made of the fact that this method would in general give the precisely contrary result of a gross under-valuation on account of the progressive decline in the purchasing power of money. Valuation of physical assets is rejected—except where only part of an undertaking is being acquired—as involving excessive costs of valuation and possibly of arbitration. Having also rejected Stock Exchange valuations, the Committee plumps for the formula of "reasonable net maintainable revenue," a concept to which accountants might find it difficult to give precise expression. It is argued, for example, that this formula would "permit special consideration of that part of past earnings which has been due to monopoly or semi-monopoly activities" or to State subsidies. But the Committee has already laid it down that the figure of compensation must be reasonable from the point of view of the present holders. Is the ordinary man, in investing his savings in the purchase of a share, supposed to have worked out what proportion of the company's earnings might have derived from a monopoly position? If not, it obviously would be unfair to exclude this mythical proportion of the earnings in assessing compensation. But the Committee virtually admits that the revenue figure adopted means little or nothing, since everything depends on the basis of capitalisation; "excessive basic net revenue will inevitably result in decreased maintainability." That is, if earnings are likely to fall, they must be capitalised on a higher yield basis. But this is precisely what is done by the Stock Exchange in its valuation of a share, and it would be difficult to find a more finely-calculated estimate of "maintainability" than the Stock Exchange yield structure.

The Measurement of Profits

The first of a series of articles on "The Measurement of Profits," contributed through the Incorporated Accountants' Research Committee, appeared in our columns last July. On page 10 of this issue we publish the second article; the Research Committee is indebted to Dr. H. W. Singer, of the University of Manchester, who presents the viewpoint of the economist and makes some stimulating criticisms of the accountant's attitude, which was set forth by Mr. Bertram Nelson, Incorporated Accountant, in the previous article. We understand that conversations are now in progress with the object of reconciling the two points of view so far as this may be possible, and we hope to be able to publish the results in the form of a third article. Meanwhile, the Committee will welcome comments.

Anglo-American Finances

Reports suggest that shortly after this issue appears a financial agreement may have been signed between this country and the United States, as the fruit of Lord Keynes' negotiations in Washington following the cancellation of Lend-Lease. Certainly, the common interest of the two countries in the restoration of world trade should provide the basis for an arrangement satisfactory to both. Lord Keynes has plainly admitted, for example, that the resort to bi-lateral agreements that would be forced upon us in the absence of American assistance with our external problems would be definitely a poor alternative from our point of view. If this country could be assured of satisfactory dollar resources to safeguard the position of sterling, on the other hand, then it would be as much in our interest as in that of the United States to restore the full convertibility of sterling by abolishing exchange restrictions on current transactions, and to co-operate with the United States in the reduction of tariffs all round. Since most Empire products already enter this market free of duty, a reduction in our tariff would, of course, mean a reduction in Empire preference. Nevertheless, the general tenor of comment in most of the Dominions suggests that they would not strongly oppose this reduction of preferences if, as part of the same transaction, they were assured of freer access to the expanding American market through a lowering of the United States tariff. In short, an outright grant or a dollar loan on favourable terms would enable this country to accept the American commercial policy which aims at the removal of all forms of discrimination; while on the other hand this British co-operation would make it worth while for the United States to extend such assistance. Thus, the possibility of an agreement exists as a normal commercial bargain, quite apart from the case for American assistance to this country as a measure of justice on the basis of the "principle of equal sacrifice" revived by Mr. Truman in his recent Lend-Lease Report to Congress.

Reorganising British Industries

The President of the Board of Trade, Sir Stafford Cripps, in a recent speech outlined the Government

plans for reorganising Britain's industries. After throwing everything—wealth, energy, factories and homes—into the battle for liberty, we were short of goods not only for the home market, but also for exports, without which we could not import essential foods and raw materials. We must avoid extravagant borrowings and turn to the harder but more honest and self-reliant way of working out our own salvation. Industries must attain real efficiency as regards buildings, machinery, hours, wages and amenities. Well-trained and highly skilled managements would be required. The Board of Trade desired to deal with these problems upon the basis of a tripartite partnership—employers, employees and the Government. Working parties would be set up in the different industries to formulate a plan for action: each would consist of three equal parts, representing employers, trade unions, and the general public interest. The third section, and also the chairman, would be chosen by the President of the Board of Trade. The working parties would be expected to sit more or less continuously until they had framed their reports. The Board would then lay down the minimum requirements to be placed upon the industry in the national interest. Thereafter a permanent body of similar composition to the working party would advise the Government, but powers of control or compulsion must rest in the hands of the Government and not in those of the industry.

The first of these "working parties" is expected to be set up shortly for the cotton industry. Sir Stafford has proposed that it be composed of thirteen members—an independent chairman, four representatives of the employers, four of the operatives, and four "outsiders"—probably an engineer, a scientist, an economist, and an efficiency expert. This working party is to work on the reports and recommendations already made for different sections of the industry and to produce a concerted scheme.

Building Society Rates

In recent weeks a number of important building societies, including the largest society of all, the Halifax, have announced a reduction in their rate on advances to 4 per cent., the lowest level on record. Existing borrowers, as well as new borrowers, are to have the benefit of the reduction. As a corollary, the rates offered to shareholders and depositors are also being reduced, the new level being 2 to 2½ per cent. for shares, and 1½ to 1¾ per cent. for deposits. Though there has been very little reduction in the yield on gilt-edged in the recent past, these reductions are justified by the general trend of interest rates since the war began. In spite of the successive reductions in the nominal rates allowed to shareholders and depositors, the gross return to them has been reduced only slightly during the war, if one allows for the payment of tax by the societies at the higher rates now ruling; whereas the yield on most other forms of investment has declined appreciably. While the reduction represents some hardship for investors, it is in the interest of the building society movement, faced with the competition of the local authorities, to make available housing finance on the lowest possible terms.

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MAN-POWER

The demobilisation problem, like so many others, presents two conflicting aspects. It can be viewed either from the standpoint of the interests of the community at large, or from the standpoint of the interests and claims of the individual serving man or woman. The Bevin plan of demobilisation assumed that there would be no conflict between these two sets of interests. It was based primarily on the "first in first out" principle, subject to a strictly limited recognition of the need of industry to get its key personnel out at the head of the queue, but it sought to reconcile individual with national claims by making the convenient and probable, but, as it has turned out, erroneous, assumption that there would be a long time gap between the end of the European and the end of the Japanese war. The quick collapse of Japan has brought to a head this conflict between justice to the individual and the communal interest. In the interests of national economic recovery, it is vitally and urgently necessary that the demobilisation process should be greatly speeded up, and that speed and the preferential release of key personnel should even override the equitable principle of age and length of service. Mr. Isaacs, the Minister of Labour, told the Trades Unions Congress that some 5,000,000 additional workers are required in peacetime industrial production. Some 2,000,000 of these will apparently come from the munition industries, and 3,000,000 from the fighting forces. At the present rate of demobilisation, only some 1,100,000 of these 3,000,000 (including some 100,000 from Class B, i.e., the pivotal men and women) are in sight by the end of the year. Nearly 2,000,000 would be left for demobilisation in 1946, and one must unfortunately add, 1947. It is only fair to appreciate the difficulties of the Ministry of Labour and National Service in reconciling so many claims and conflicting principles: Again the tasks of the Armies of Occupation call for a large number of officers for military, administrative and technical duties and considerable forces to direct essential reconstruction, transport and policing. Even so, the present release is nothing like good enough. Our grave national impoverishment through the war makes it imperative that we should get our industrial productions back into top gear at the earliest possible moment. If the 2,000,000 could be demobilised six months earlier than scheduled, it would add something of the order of £300,000,000

to our production, available either for home consumption or for export.

Mr. Isaacs has said that what is needed is not a recasting of the Bevin scheme, but merely a speeding up. Certainly the most important thing is speed. But it seems doubtful if the scheme can be speeded up sufficiently without fairly drastic modification. Under it, members of each Class A group at home must await the arrival of their fellow members serving overseas before the group can be released. Shortage of shipping precludes any great increase in the rate of repatriation of those serving abroad. It seems preposterous that, in our present economic straits, unneeded sailors, soldiers and airmen should be kept here at home on unnecessary tasks, yet that is what the Bevin scheme, with its over-emphasis of equity and orderliness, requires. Practising accountants from their knowledge of clients' business—and accountants engaged in industry—are acutely aware of the serious present bottleneck in turning over to peace-time production and business, and the major factors are the absence of key men and the shortage of labour.

Modifications of Class B procedure are also needed. Though Class B releases are strictly limited to 10 per cent. of the Class A release, a large proportion of those eligible for demobilisation under Class B have refused to accept release owing to the inadequacy of the benefits offered them, and have preferred to await their turn under the Class A procedure. Yet industry and commerce—especially for exports—must have their key men and women out before they can get into their stride. The fact that after the last war men claimed and secured early release as key men who were not really key men, is no refutation of that truth. The Ministry should be able to devise a workable definition of a key man, although Mr. Isaacs in his T.U.C. speech was vague and unsatisfying in his references to improvements of the Class B procedure. Certainly this would matter less were Class A demobilisations proceeding with really exemplary rapidity. Now, four months after VE-day, the rate of demobilisation is some 45,000 a week. In March, 1919, four months after Armistice Day, it exceeded 25,000 a day, nearly four times the present rate. If we could now achieve the peak rate of 1919, we should not need to bother overmuch about Class B. But of that there seems little or no chance unless public opinion forces a radical recasting of its ideas on the Government.

It is not over-stating the position to say that the accountancy profession is one of the key points in the transitional period and in hastening the peace-time functions of industry and commerce. There is considerable anxiety in the profession as regards staff, and arrears of work. We acknowledge the co-operation of the Ministry of Labour and National Service in dealing with the situation during the war, and it is realised that both the Government and the Ministry have a difficult problem to meet. But practising accountants have carried on with continuous improvisation, and they now look for the return to the profession of men with the Forces. This is one aspect of the general policy dealt with in this editorial, and we can say that the special needs of the profession are receiving the attention of the Councils of the accountancy bodies.

After Lend-Lease

By F. W. FORGE

At the time this is being written, conversations are proceeding in Washington as to what is to follow the end of Lend-Lease. This article is not an attempt to forecast what will happen there, or to lay down what should happen. It is concerned mainly to present the dimensions of the problem with which this country is faced, and to give some explanation of the background against which the negotiations will have to proceed.

It may be as well to state at once that Lend-Lease, as its name implies, has never been considered by the average American as a free gift, but merely as a war contribution to the efforts of America's allies. As such there was to be no strict cash accounting and no obligation to repay in cash, but there might very well be claims, in addition to the amounts received under reverse Lend-Lease, against the recipients for the return of goods not actually used or not completely used up. Lend-Lease, in fact, came into being as a fair substitute for the further sale of British assets overseas some months before Pearl Harbour. When, after that event, the U.S.A. entered the war, it was decided to carry on the existing system rather than to resort to what would have been a fairer distribution of the burden. That is to say, this country was to continue an all-out war effort without making any attempt to finance imports by exports. This was indubitably the right decision, but it has borne hardly on this country. British exports, which in 1942 were still over £270 million, had already fallen in volume to 37 per cent. of 1938, and were destined to fall next year to 29 per cent. Such recovery as there has been since then is due almost entirely to reverse Lend-Lease, outside the class of munitions proper, special exports to Russia and, more recently, relief to Europe. Meanwhile, imports have continued to soar.

The Amount of Lend-Lease

According to the 20th Lend-Lease report, the total assistance afforded by the U.S.A. under this head was some £7,500 million, of which some £3,350 million was granted to this country, and £900 million odd to other parts of the Empire. These figures are for the whole period ended June 30, 1945. They by no means comprise the whole story of assistance given to this country, for Canada has made a very large contribution, exceeding £1,000 million, on similar terms. Against this, complete figures of British Mutual Aid contributions were some £1,080 million to June, 1944, and, possibly, £1,360 million to date.

The bulk of these payments in both directions were, of course, in connection with the war effort, and the need for them will cease now that actual fighting has ended, and the manufacture of munitions of war is in process of being reduced to a very low ebb. But this does not apply to a very considerable proportion. Thus, of the total provided by the U.S.A., some £825 million was in the form of agricultural products, mainly foodstuffs. It is true that men who are fighting consume more food than those who are

not, but it is necessary that the diet of this country should be improved, at least for heavy workers. Further, it is necessary, if British industry is to be re-equipped with reasonable speed, that there should be some imports of manufactured products for this purpose as well as the additional raw materials which will be required. It is evident that the cessation of American assistance leaves a large gap, and that, even if there were no other problems arising out of the war, some assistance will be necessary.

Some idea of the dimensions of the problem can be gathered from a study of the latest trade returns. These show a deficit at the rate of some £800 million per annum on merchandise account alone. Taken by and large, these figures exclude all munitions, but they include other Lend-Lease materials. They also exclude the huge overseas expenditure of this country which does not appear in British trade, since the goods and services are rendered elsewhere. This would more than double the gross annual deficit. Much of this can and must be curtailed. But, with the end of the war, there will come the disappearance of a substantial part of the offsetting items. It will not be surprising if the net deficit has been running at the rate of £1,200 million per annum. It is, at this juncture, impossible to say by how much this rate will be automatically reduced by the mere cessation of hostilities, but it may be assumed that the fall will be substantial.

Other Overseas Disinvestment

But to get anything like a complete picture of the position, it is now necessary to turn to another aspect of the problem, namely, that of the holdings of sterling accumulated during the war by our allies, associates, and certain neutral powers with whom we have not enjoyed Lend-Lease or Mutual Aid arrangements. If we have received, gross, Lend-Lease from America of £3,350 million, we have also sold overseas assets to the value of half our pre-war external investments and incurred new debts which, at a conservative estimate, amount to £3,500 million. The analysis of war expenditure of April last showed net overseas disinvestment of over £3,900 million for the seven years 1938-44, and virtually the whole of this has been spent on the war effort. That is to say on objects which will now, except to an almost negligible extent, produce no return out of which the service of the loans incurred can be provided.

It should not be necessary to labour the point: we have lost the major part of our overseas investment income, we have recently been a debtor on account of shipping, which in pre-war days brought us in a large income, and we have incurred huge debts the annual charge for which has yet to be settled. All these things have to be made good out of increases in exports of goods, or by reductions in imports. To the extent that we borrow further on commercial terms to tide us over the interim period of reconstruction at home and the building up of old and new markets overseas, we increase the excess

of exports over imports which it will be necessary to maintain if the service of the new loans is to be met. Without taking account of the loan service, it is reliably estimated that there will have to be an increase of the order of 50 per cent. in the volume of exports—supposing imports to remain at the same level—over 1938 figures, if a balance is to be achieved. The increase in values will, of course, have to be much greater, owing to the fall in the value of sterling over the war period.

The Burden Involved

The additional burden which would be imposed by the settlement of new debts of some £3,500 million on a commercial basis can easily be indicated. Assuming interest at 3 per cent. and a sinking fund of only 1 per cent., the annual charge would be £140 million. This is rather over £70 million at 1935 prices. The exports of 1938, revalued at 1935 prices, amount to £418 million, and, with the 50 per cent. increase, already suggested as necessary, this figure would be £627 million. Thus the further debt charge would call for an increase in exports to 67 per cent. above 1938 or a curtailment of imports by something of the order of 17 per cent., almost the whole of which would have to come out of imports of food and semi-luxuries, if industrial output were not to suffer.

Apart from the long-term problem of achieving a permanent balance in the overseas trade position of this country, there is a short-term problem of even greater difficulty. The former must be solved by our own efforts, but we are legitimately entitled to seek some assistance with the latter. The short-term problem is due in no small measure to the difficulties of reconversion, on the one hand, and to the fact that a part of the so-called "sterling balances" have, in fact, to be found in dollars, on the other. We have to find dollars for the rest of the sterling bloc as well as for ourselves, because it was part of the arrangement that countries entering the sterling bloc proper should hand over their dollars to us. This is one of the reasons why the immediate problem, as well as the long-term one, is largely a dollar problem. But, whereas in the short run the dollars will be short, in part at least, because of an exceptional demand for that currency in the past to help wage the war, the long-term shortage of dollars is expected to arise because the U.S.A. will not be prepared to buy abroad to the same extent as she hopes to export.

Over the latter we have no control, but some workable arrangement must be reached as regards the former between ourselves, our creditors, and the U.S.A. Our creditors are all the more likely to press for dollars because, for some time at least, we shall be unable to provide the goods they require in sufficient quantities to satisfy them. The extent to which the various creditors will press for payment, either in dollars or in sterling, will vary from case to case. But the fact that India is by far the largest, and that the Government and leading industrialists of that country are at one in a desire to carry out a policy of industrial development at a rate which has seldom, if ever, been equalled, suggests that every sort of pressure will be used to secure large transfers

at the earliest possible moment. It is a weakness of our policy, due, no doubt, to the acute political position, that this country has not from the first made it clear that these debts were not of a normal commercial character, and could not be met as if they were. But in any circumstances, the need to make some payment shortly after the conclusion of hostilities would always have been an embarrassment. We have, of course, an appreciable accumulation of dollars and gold, but the amount is unknown and the normal working balance for the sterling bloc will have to be a very considerable sum.

It seems very desirable that there should be settlement of the general dimensions of the payments to be expected, both in the immediate future and over a longer period, in respect of these sterling balances. In particular, the dollar liability ought to be fixed. But it is a mistake to suppose that dollars are the only currency of which this country will be short for some years to come. The dollar shortage is competently estimated at some £250 to £300 million per annum for the next two years, but that is only about one-third of the total shortage of exchange this country is likely to be called upon to face for some time.

If America and our creditors can be persuaded to take reasonable account of this position, this country can take her part in re-establishing of world trade on a wider basis than in pre-war days. If not, we ought probably still to make the attempt, but we ought also to make it clear to all concerned that the difficulties are so great that they may well prove insurmountable. In that case, Britain may be driven back into exclusive bilateral trade agreements, with a resultant slowing down in the rate of world recovery and progress.

Relaxation of Export Restrictions

It is welcome news that the latest Export of Goods (Control) Order (1945, No. 1146, price 4d.) has removed control by licensing from a large number of goods. The main classes of goods affected—but with some exceptions in each category—are machinery, ball bearings, metal manufactures, semi-manufactures of some non-ferrous metals, vehicles and vehicle parts, instruments and apparatus, etc., electrical goods, and chemicals and drugs. No major relaxation is yet possible in respect of foodstuffs, many raw materials, clothing and other textiles, important chemicals and drugs, a strictly limited list of manufactured goods in short supply, arms and munitions, and diamonds, works of art and other valuables where there are special reasons for retaining control. It has been necessary to add to the controlled list parts of furniture and a few substances.

Export control has been administered by the Board of Trade under war-time powers, in order to conserve supplies for use in the prosecution of the war, to prevent exports from reaching the enemy, and to share among essential markets limited supplies of goods. The list of goods controlled was steadily increased until the autumn of 1941, but during the last twelve months a number of relaxations have been made.

The Company Law Report

I—Profit and Loss Accounts

(A financial editor's point of view)

By HARGREAVES PARKINSON

The Report of the Committee on Company Law Amendment, over which Mr. Justice Cohen presided, has deservedly had a good press. City editors generally have applauded the Report for its courage and realism and what might be termed its sense of social perspective. Its recommendations, which in many respects are far-reaching, are explicitly based on the assumption that the affairs of companies, and the amount of publicity which ought to be given them, are definitely matters affecting the public interest. Consequently, the Report comes out for full disclosure of essential facts and figures, all along the line. It sweeps away the last traces of obscurantism which the 1929 Act permitted or condoned, but it leaves company directors still masters in their own house. The sovereignty of the Board Room, under the Cohen Report, remains quite unimpaired—provided it has the ultimate backing of the proprietors. The Report asks for conspicuously little in the way of new legal penalties. It relies on the force of public opinion—which will be far better informed than in the past—as the main factor in keeping the future company world clean, with the help of the Stock Exchange, to whose enlightened policy in that direction the Committee pays a well-deserved tribute.

Accountants will doubtless have read the Report with mixed feelings. Undoubtedly, if the Committee's recommendations become the law of the land, the responsibilities of accountants and auditors, and the amount of work falling on their shoulders, will be increased. That, of course, should tend to make for full employment in the profession and, ultimately, to raise its status to an even higher level than at present. On balance, therefore, implementation of the Report should be advantageous to the profession of accountancy. And, for the most part, the Committee's findings follow lines which representative accountants have themselves advocated in the recent past—as regards, for example, the segregation of "provisions" from "reserves" and their detailed disclosure in published accounts to shareholders.

Information for Shareholders

There is another important class of people to whom the Cohen Report should make a strong appeal—namely, those for whose benefit a great many recommendations were ostensibly designed, company shareholders and their advisers. Broadly, the objective is to make published company figures not only more detailed and more comprehensive, but also more accurate. As every accountant knows, the element of estimation enters, to greater or less extent, into every figure in a company's published accounts, except possibly the issued capital and the cash. Under the Cohen provisions, briefly, shareholders will have to be told more than heretofore

about the bases on which estimates have been made. That applies, e.g. to provisions for taxation—indeed, to "provisions" generally and the whole question of secret reserves.

But what investors and their advisers will probably value even more highly are the findings of the Committee on the subject of company profit and loss accounts. Here, frankly, from the investor's viewpoint, the position has been, and still is, almost as bad as it could be, so far as the minimum disclosure requirements of the Companies Act are concerned. More and more clearly, over the last twenty years, it has been recognised that earnings are the touchstone of investment. Ability to earn profits is, both in the short and in the long run, the only sound criterion of the worth of a company's shares. Assets are valuable only inasmuch as they contribute to the profit-earning power of a going concern. All balance-sheet valuations depend ultimately on this factor. Yet the Companies Acts have consistently adopted an attitude of what might almost be described as lofty disdain towards the profit and loss account in published company documents. There are at present no statutory requirements as to the contents of profit and loss accounts, except in so far as a profit and loss balance appears in the balance-sheet signed by directors and certified by auditors. For the profit and loss account itself there is no certification. The Cohen Report completely changes all this. It brings the profit and loss, or income and expenditure, account right into the middle of the company map. It must be signed and certified. It must be on a comparable basis with its predecessors. If any material change is made in the basis on which the account, or any item in it, is calculated, attention must be called to the change and to its effect. The indication of earnings which it gives must be true and fair. Any material respects in which it includes extraneous, non-recurring or exceptional transactions must be disclosed.

Holding Companies

The result should go a considerable way towards making company share investment much nearer an exact science than any of its practitioners can hope for under present conditions. But the Committee's recommendations on profit and loss accounts would have been shorn of more than half their value if the position in the matter of holding companies had been left at the stage reached by the 1929 Act. To the investor, the legal form assumed by a large and ramified business is a secondary matter. It is, fundamentally, all the same to an equity shareholder, if the concern in which his money is invested is a single entity with a number of branches, or a holding company with a number of subsidiaries. He is interested in the aggregate earning power of the group, as a business. He wants to know total profits, and not merely profits which the subsidiaries pay over

to the parent by way of dividend. Of late years, an increasing number of great businesses have recognised the legitimacy of this requirement of the investor, by voluntarily publishing consolidated accounts. But there are still many concerns, with millions of pounds of capital in investors' hands, of whose true group-earning power shareholders have no idea. Many of them are companies whose shares are among the most widely held and best regarded in the whole of the Stock Exchange Lists. Complete disclosure of consolidated earnings, in such cases, could redound only to the credit of the companies concerned. Yet, year after year, their directors have chosen to bring in, from their subsidiaries, only such amounts as, with the parent's own profits, will broadly cover the dividends to shareholders of the parent company and other allocations which the directors have decided to recommend. The Cohen Committee recommendation that consolidated profit and loss accounts and balance-sheets should be compulsory, except for cause shown to the contrary, will consequently have the welcome effect of putting shareholders in holding companies into a similar position to that of shareholders in "unitary" concerns and giving them a measuring rod of earning power which will be comprehensive as well as accurate.

Should More Information be Required?

There is only one respect in which some of the more exigent advocates of earnings disclosure may feel a slight sense of disappointment with the Cohen Report. The Committee has decided that compulsory disclosure should start with net earnings, before depreciation, taxation, "provisions," debenture interest, reserves and dividends, but *after* expenses of production, selling and distribution, administration and management. In other words, the Committee has not seen its way to adopt the suggestion that disclosure should begin with a sales turnover figure. The decision seems to have been reached on the ground that publication of figures of that nature could not have been made in sufficient detail to achieve a useful result without loading published accounts with an amount of detail which would have defeated its own objective. In this respect, the Committee seems to have had in mind the suggestion that the figures might be of assistance

to "those responsible for framing general economic policy"—presumably His Majesty's Government. For such a purpose, the Committee thought that machinery like that of the Census of Production Act would be more appropriate and convenient. For shareholders and creditors, for whom it is the primary purpose of published accounts to provide information, the Committee considered it essential that the form in which information was conveyed should be one that could be readily assimilated.

It is not really clear to many who have been interpreting company accounts for investors, in the financial press and elsewhere, all their lives, why the lengthy and complex list of items enumerated for separate disclosure in profit and loss accounts, on pages 61 and 62 of the Committee's Report, should necessarily be well within the comprehension of shareholders and creditors, while global items of sales and expenses under a relatively few headings should be beyond their capacity to grasp. It seems, on the face of it, much more probable that investors' advisers would find their capacity for interpreting the significance of such items increased by practice of a kind which unfortunately, up to now, they have had little opportunity to exercise. The crucial test seems to be this: would such information enable investors to determine earning power, and its fluctuations, more accurately? The answer is that it undoubtedly would—if only because it would enable them to discover the extent to which expenses, charged against gross sales, varied from year to year. Undoubtedly, in practice, there is a certain elasticity in such items which may, on occasion, be a function of the amount of gross profits themselves. If relative stability in published net earnings masks appreciable fluctuation in gross earning power, set off by inverse movements in expenditure, adopted as a matter of deliberate policy, then it seems unchallengeable that it would be in the best interest of shareholders to know the true position.

That, however, appears to be the only criticism which professional investment commentators, even of "advanced" views, have to make of the tenor of the Cohen Report. Their chief desire is that the Committee's recommendations should be embodied in a new Companies Bill and submitted to Parliament at the earliest possible moment.

II—Auditors

By RICHARD A. WITTY, Incorporated Accountant.

In general terms, it may be said that the Report of the Cohen Committee, as it relates to auditors and their duties, contains no recommendations which have not been foreseen, and, indeed, it is no exaggeration to say that every proposal has emanated from within the profession itself. The Report is based on the assumption, now generally recognised by the profession, that the auditor's duties are of a three-fold nature, involving his duty to the client, a duty to the Revenue authorities, and a recognition that the interests of the public are concerned, in varying measure, in every business which trades under the protection of company law.

The recommendations in relation to auditors may be usefully summarised under the following headings: (1) Balance Sheet and Accounts (public companies and private companies), (2) Prospectuses, (3) Holding Companies, (4) Remuneration, (5) Attendance at annual meetings, (6) Qualifications, and (7) Reports.

Balance Sheet and Accounts

After reviewing the present practice and the functions of balance sheets, the Committee's recommendations are first concerned with the actual form of the balance sheet. It is proposed that the new section shall define "fixed assets" as assets not held

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for sale or for conversion into cash, and "current assets" as cash and assets held for conversion into cash. Matters of detail covering depreciation written off, investments in subsidiary companies, debentures, premiums on share capital, capital reserves, etc., are also covered in the recommendations together with the subjects to be dealt with by way of note on the balance sheet or in any statement or report annexed thereto. The outstanding paragraph in the recommendation under this heading is undoubtedly that which provides that the profit and loss account or income and expenditure account shall give a true and fair indication of the earnings or income of the period covered by the account and shall disclose any material respects in which it includes extraneous or non-recurrent transactions or transactions of an exceptional nature. It then sets out the principal items which should appear in the profit and loss account. The accountancy profession will not be disposed to quibble over these recommendations, which follow the trend of opinion within the profession and which have been followed in actual practice in the great majority of accounts. This part of the report, as a whole, confirms the views which have been expressed by the profession and every proposal has been discussed on many occasions by practising accountants.

Prospectuses

The deficiencies of the present requirements in relation to auditors' reports appearing in prospectuses are recognised, and it is proposed that, in future, a report by the auditors for insertion in the prospectus shall deal with the profits or losses of the company in respect of each of the previous five years with necessary adjustments where figures are not available for that period. It must also deal with the rates of dividends paid during the five years, and there are separate provisions in relation to holding companies. It is interesting to note the proposal that a statement, signed by the auditors or accountants making a report, showing any adjustments made by them in making such report is to be delivered only to the Registrar of Companies for registration.

Holding Companies

In relation to any report in a prospectus some adjustments would clearly be necessary in the case of holding companies, and the recommendation is to the effect that there should be a report with respect to the profits or losses of the company and of its subsidiary companies so far as such profits or losses are attributable to the interests of the holding company. Further, the report with respect to the assets and liabilities of the company must also include those of its subsidiary companies. It is also provided that in the case of a holding company the auditors are to examine the consolidated balance sheet and the consolidated profit and loss or income and expenditure account and any statement required to be annexed to them, and shall make a report to the members of the holding company setting out the circumstances affecting the consolidated accounts and any qualifications relating thereto.

Remuneration

The Committee point out that as a matter of practical convenience many companies have adopted a procedure whereby general meetings pass resolutions appointing auditors at fees to be arranged between the auditors and the boards of directors. They recommend that the practice should be regularised by an amendment of the Act, but that if the fee be fixed by the directors it should be separately stated in the accounts.

Attendance at General Meetings

A recommendation is made that the auditors of a company shall be entitled to receive notices of and attend any general meeting of the company and to make any statement or explanation they desire at such meeting. This extends the present right of the auditors to attend any general meeting at which any accounts examined or reported on by them are to be laid before the company.

Qualifications

The broad proposal is that the Board of Trade should "designate" the bodies of accountants of which the members are qualified to act as auditors, and that the Board of Trade should also be empowered to authorise other persons to act as auditors. These proposals are necessitated by the past history of the accountancy profession. It may happen that the co-ordination proposals may afford a different and better method of deciding who may be considered qualified to act as the auditor of a company. It is interesting, however, to note the comment that "for reasons of reciprocity some provision must be made to allow accountants with adequate qualifications obtained abroad to act as auditors." The question of reciprocity between accountancy bodies in different parts of the world has assumed an importance during the past few years which must not be under-rated. Behind the whole question of reciprocity there lies the feeling of nationalism in various countries, sometimes without full regard to the sources from which capital is derived for commercial purposes in the particular country. It is, perhaps, not too much to hope that the discussions on this point arising on this report and in other directions, may lead the minds of the profession to the desirability of ultimately creating a co-ordinated standard of accountancy throughout the world.

The qualifications of an auditor of a private company are dealt with in a somewhat curious manner. The general comment by the Committee suggests that the exception which enables a director's partner to act as auditor of a private company may be convenient. We would add that, broadly, this comment applies to nearly all private companies where the capital is provided from a family or limited circle. But, having made that comment, the Committee then proceed to suggest that the convenience should be abolished and that the exemption of private companies in this respect should cease. The recommendation rather suggests that the letter of the law is more important than the spirit of the law.

A further proposal, relating to all companies, is to the effect that a retiring auditor shall be deemed to be reappointed unless some other person is duly appointed in his place or a resolution is duly passed, after twenty-eight days' notice, that he shall not be reappointed.

Report

The suggested amendments in the form of the auditors' report can properly be described as merely an extension of the old form. It will have to cover the profit and loss account or income and expenditure

account, as the case may be, but it is also to include a statement whether, in the auditor's opinion, proper books of account have been kept. This addition will strengthen the hands of the auditors in the few cases of companies whose records could only be described as incomplete. There is also the addition that, in the case of a holding company which does not annex consolidated accounts to its annual accounts, the auditors must state whether, in their opinion, the reasons given by the directors for not presenting the consolidated accounts are satisfactory.

The Measurement of Profits—II

By DR. H. W. SINGER, *University of Manchester*

CONTRIBUTED THROUGH THE INCORPORATED ACCOUNTANTS' RESEARCH COMMITTEE

The divergences between the views of accountants on the one hand, and of the economist and statistician on the other hand, in such matters as stock valuation or depreciation policy or proper calculation of profits are well known. In order to understand these divergences, it is important to realise that very much more is involved than questions of mere technique or the limited principles of original cost or replacement cost. A deep difference in outlook and approach divides the accountant from the economist. All the minor divergences spring from this source. Unless we realise what this basic difference is we shall not be able to penetrate each other's mind or understand each other's arguments. Discussion would be futile, since it would fail to bring out the real points at issue.

The Accountant's View

We shall now try to define this basic difference as clearly as we can. To the accountant, the individual firm is a transformer station of money through goods and sales into new money; the firm is a fictitious individual who has borrowed money for a certain purpose and is under a commitment to repay it, the transaction is in the nature of a credit fixed in money terms. Since the accountant examines the capacity of the firm to repay its borrowed capital, he tries to measure the current money worth represented by the firm. The idea of liquidation and repayment clearly lies at the back of his approach. Since the firm is essentially a credit transaction or a transfer station, it has no value in itself (it is not a net asset), but a self-cancelling equilibrium system of assets and liabilities. Of this approach, double-entry book-keeping is symbolic, a method so alien to the ordinary statistician. Profit—the mainspring of economic activity—merely appears as a balancing item and a residual quantity in this equilibrium of current money-worthiness and the original money credit, a certain indifference to the true profits shown in the balance sheets is excusable; equilibrium can be shown at any level of balancing profits (within certain limits) provided the other items are suitably adjusted. The aura of ambiguity which surrounds the profit statements in balance sheets and—correspondingly—the valuation of the other asset items thus is directly traceable to this basic approach.

The Firm as Part of the National Capital

Let us now contrast with this the economist's approach. It must be understood that for our purposes we have to stress the points of difference in the two approaches, and to bring them out in a pointed, perhaps unnaturally extreme form. There are many similarities (often covered up by a different terminology), but these it is not our present purpose to discuss.

To the economist, the firm is a net asset, not a system of assets and liabilities in equilibrium. It is a net asset because it is part of the productive national capital, and contributes to the current flow of goods and services (the gross national income). But from this flow something has to be deducted—not as a liability on account of a previous credit transaction, but because part of the current services and goods of the community (perhaps part of the very same goods and services turned out by the firm itself) is required to maintain indefinitely the *real productive* value of the equipment, stocks, etc., taken over from a previous period. If a more backward-looking formulation is preferred (to fit in with the accountant's idea of a past credit in money form), the economist would say that the productive resources from a past period cannot be assigned to the net income of the present period, but must be deducted. It will be noticed that the economist thinks in terms of current real values. Past money values are irrelevant to his concepts. Whereas the accountant bears in mind the possibility of instantaneous liquidation, the economist's technique, on the contrary, is based on the assumption of permanent continuity in production—not indeed necessarily of the firm just as it is, but of the part of the national capital represented by it. To the economist there is no doubt that his conception of continuity in production is the more appropriate one to a progressive economic system where—except for periods of war and of extreme depression—the national capital is being added to, not liquidated. It also seems more in conformity with observed industrial facts. Firms may gradually change their owners, the nature of their output, their technique and even their location—but the actual winding up of a firm and the repayment of their original money investment to the original investors is not a process frequently found in

reality. To the economist it seems that accountants ought to abandon the idea of enterprise as a series of discontinuous short-period money ventures, and all that goes with that view in the measurement of profits, for his own view of a continuous flow of real goods and services.

To the economist, true profit is not a mere balancing item but a concept of overriding importance, since (within the assumptions on which the system of private enterprise is based) it determines whether the precise nature and use of the productive resources represented by the firm is the one best in accordance with the desires of consumers and the requirements of the whole system, or whether some change in direction is indicated. The true profits made, to the economist, are the measurement of the value of the peculiar combination of managerial initiative, "goodwill," labour organisation, fixed equipment and "base stocks" which represents the continuity of the enterprise. Thus a new impasse arises between the accountant and the economist. The economist assesses the value of that combination called the enterprise from its true current revenue as a going concern, whereas the accountant proceeds the other way round: by first assigning certain fixed values (original money cost) to equipment and stock, the net revenue is then deduced as a residual. The economist would assign to the total combination a value based on net revenue, to the individual object its current replacement cost. The economist would therefore argue that it is not possible to add up the separate valuations of individual assets to a valuation of the enterprise as a whole. This valuation of the enterprise as a whole must be one for a going concern, and must start—not end—with net profits. This, again, is a familiar approach for the buyer of a firm as a going concern.

Stock Valuation

Turning now from the general to the particular, we shall consider the problem of stock valuation. The prevailing habit among accountants is taken to be the valuation by cost or current prices, whichever is the lower. From what has been said before, it will be clear that to an economist valuation at prices other than current market prices—where such a price exists—seems quite incomprehensible. To the argument that prices higher than the cost price cannot be trusted to last, his reply is: (a) If the higher prices were not expected to last they could not be what they are, in an organised market; if prices were expected by a majority of market opinion to fall back again they would fall back now since speculation and arbitrage would see to this happening. The current price already embodies the prevailing expectations; (b) There is no reason to expect a price lower than the cost price to have any greater prospect of lasting than a higher price. This assumption would obviously lead to absurd results. If any fall in prices were to last and any rises to be of a temporary nature, the general tendency of prices would always have to be downward. This is in direct conflict with the actual evidence. On the contrary, experience shows that it is much easier to raise prices again after a fall than to depress them again after a rise.

If the argument is that it is more important to avoid over-valuation than to avoid under-valuation, the case is not made any more convincing. On the contrary, it seems to contradict the underlying idea of continuous liquidation (see above). Under-valuation may be fair to the buyer of a share, or even to the owner as long as he simply wants to survey his position and to see "where he stands." But what about the selling owner? Under-valuation may be unfair to him if it tempts him to part with his assets or shares at too low a price. Thus the very "original venturer," from whose point of view the accountant tends to take his concepts, is the one from whose point of view under-valuation of stocks—and equipment—at money prices is most objectionable.

Money Gains or True Profits?

Finally, if the argument is that it would be unsound to show unrealised profits on the same footing as realised profits, the answer is that this argument is based on the mistaken identification of money gains (from a discontinuous venture) with the true profits of the firm (as a continuous productive combination). Money gains, whether realised or unrealised, should be shown, but not necessarily as profits. Higher prices and the writing-up of stocks may benefit the original venturer (if he compares his position with what it would have been if he had kept his money in cash or as a deposit), though more in the sense of a loss escaped than of a real gain made. But the enterprise as a productive unit is not benefited. If the stocks carried have been necessary they will have to be replaced—at the current higher prices. The writing-up of the stocks, therefore, should be to a price changes account, not to the general profits account. To the economist it seems that the accountant who professes to be so cautious in refusing to take notice of unrealised money gains, rushes to the other extreme of recklessness in treating any realised money gain as true profit. The accountants have reaped the storm: The Inland Revenue authorities have accepted their proposition, and now when prices are rising, taxation which is intended only to hit profits is in fact taxing a real part of the national capital. The fact that this habit of "thinking in money" has accentuated the trade cycle in the past by imaginary profits in the boom and imaginary losses during the slump, may count for little in a post-war era of full employment. But the fact that the habit recoils on industry in times of rising prices should count all the more—full employment long maintained is likely to be associated with an era of rising prices.

Company Accounts and the Cohen Report

Reprints in booklet form will be available early in October of the "Company Balance Sheet and Profit and Loss or Income and Expenditure Account as related to the recommendations of the Committee on Company Law Amendment," prepared by F. Sewell Bray, F.C.A., F.S.A.A., and H. Basil Sheasby, A.C.A., A.S.A.A., for the Incorporated Accountants' Research Committee, which was published in our August issue. The price will be 1s.

Although extra copies were printed, the August issue of ACCOUNTANCY is out of print.

TAXATION

The T.U.C. Statement on Fiscal Policy

The statement prepared by the General Council for presentation to the Trades Union Congress has received a wide and deserved publicity. It is a welcome evidence of the practical interest of the Unions towards the more important taxes.

On general principles, the report points out that taxation is a main instrument by which the Government influences the economic activity of the nation. The report naturally emphasises that a chief aim should be the maintenance of full employment. It also suggests that fiscal policy should aim deliberately at correcting gross inequality in the distribution of income, in view of the effects on the level of employment. It recognises that there are limits to the process of redistributive taxation in a predominantly profit-seeking economy, and envisages that a combination of redistributive taxation and "deficit spending" (making good inadequate private demand by increased Government outlay of borrowed money) will be required in the next few years.

Though suggesting that taxation can be deliberately used to promote industrial efficiency and a variety of special economic purposes, the report does not develop this aspect beyond saying that it is essential that full discussion should take place between the Government and the bodies genuinely representing important interests affected by fiscal policy, notably the T.U.C.

The financial Budget should be considered side by side with estimates of the nation's income and outlay and with a man-power budget; public spending and revenue, including that of local authorities, ought to be reviewed as a whole, and the T.U.C. suggests that it could appropriately issue each year, in advance of the Budget, suggestions for changes in the tax structure.

The report also points out that about two-thirds of the total tax revenue comes from direct taxation and that the regressive character of the tax burden on small incomes is the result of indirect taxation, especially on essentials. It says that indirect taxes cannot ultimately be justified unless they serve definite economic or social purposes which accord with the public interest. Much of present taxation could not be justified on those grounds.

Income Tax

So long as there remains considerable indirect taxation inflating the prices of articles and commodities entering into working-class expenditure, the T.U.C. would not favour a drastic reduction of the standard rate. The restoration of the pre-1941 allowances, however, is recommended, coupled, of course, with the cessation of post-war credits. "It is illogical and inequitable to levy taxes on incomes below the level recognised as necessary for a reasonable living standard."

The following table shows the extent to which more people have been brought into the net by the reduced allowances:

Range of Income, after tax:	1938-39	1942-43
120-250	4,500,000	7,000,000
250-500	1,820,000	5,300,000
500-1,000	450,000	550,000
1,000-2,000	155,000	117,750
2,000-4,000	56,000	31,000
4,000-6,000	12,000	1,170
6,000 and over	7,000	80
Total	7,000,000	13,000,000

The yields of tax were as follows:

	1939-40	1944-45
Income Tax	£380,000,000	£1,317,000,000
Sur-Tax	70,000,000	74,000,000

The incidence of allowances on the various income groups calls for early consideration, and the restoration of the pre-1941 rates would be the first step.

On post-war credits, the report recognises that it would be inadvisable to press for immediate repayment.

Indirect Taxes

The report wants to abolish indirect taxes on commodities, e.g., tea and sugar, that enter into the working-class budget, and to maintain and extend the system of subsidies on essential foods. The inflationary consequences of the high taxes on beer and tobacco lead to the suggestion of drastic reductions in the duties.

Excess Profits Tax

The report recognises that E.P.T. cannot be regarded as a good tax for peace-time operation, involving as it does discrimination between industry and industry and between different firms in the same industry. Despite possible higher efficiency or more modern methods, a developing undertaking started near the basic period is likely to be prejudiced in comparison with an older established business. Moreover, it is said that E.P.T. is not so productive of revenue as it might appear. This is due to the high standard rate of income tax, which would collect much of the profit anyway, and the approaching repayments on deficiencies and terminal losses now that Government contracts are ending.

Inefficiency and extravagance are encouraged, and enterprise and initiative discouraged. The report therefore seeks an alternative method of taxation which will be more equitable. It mentions an amended N.D.C. and an income tax surcharge on the Schedule D profits of corporations beyond a small limit. The claim of industrialists for post-war credits (E.P.T.) being made immediately available for re-equipment and development is recognised as reasonable. An immediate reduction of E.P.T. to 80 per cent. is recommended, so as to get away from the forced loan of 20 per cent.

Purchase Tax

Recognised as an anti-inflationary war-time device, the purchase tax, it is stated, should now become a luxury tax. Household necessities and other articles for equipping the home should be freed as soon as possible. Adjustments might be useful to promote production of utility or standard goods and to discourage unnecessary variety in production and importation.

Death Duties

The continuance of estate duty is advocated as a convenient means of counteracting the inequalitarian consequences of inheritance. "A general capital tax would not be subject to this limitation and would therefore be of great importance in securing a more equitable distribution of property. The whole question of taxes on property requires, in our opinion, a special detailed examination."

The report strikes no new ground, but is a valuable contribution to to-day's fiscal problem. No doubt the Chancellor of the Exchequer will give weight to its suggestions and meet some of them. We can expect further suggestions from the same source. The awakening of the public to the problems of the day can only result in good.

Taxation Notes

Farmers

It is sometimes overlooked that it is no longer possible for a farmer assessed under Schedule B to claim to be assessed under Schedule D. This privilege ceased after 1941-42. A farmer assessed under Schedule B has still the valuable right under Rule 6 to claim, within one year after the end of the year of assessment, to have the Schedule B assessment reduced to the profit of the year. Where there has been a loss, this claim discharges the assessment, while leaving the whole loss available for a Section 34 claim.

If the lands farmed total more than £100 in gross annual value, the assessment is, of course, under Schedule D, and Rule 6 does not apply.

Woodlands

The change mentioned above does not extend to woodlands; if these are managed on a commercial basis, the occupier still has the right to elect (within two months from the commencement of the year of assessment) to be assessed under Schedule D (Sch. B, Rule 7). Such election, however, keeps the assessment under Schedule D for future years so long as the same person remains in occupation. Woodlands planted or replanted within ten years prior to the notice may be treated as a separate estate, otherwise all woodlands are regarded as one estate, and a notice would apply to all. Rule 6 does not apply to woodlands.

Profits from woodlands, if preferred, may be computed on a receipts and expenditure basis, ignoring

"stock" of growing timber; the cost of replanting is allowed as an expense, but afforestation grants from the Forestry Commissioners must be included in the profits.

Post-war Credits

It is understood that the exemption of post-war income tax credits from all death duties (Finance Act, 1941, Section 7 (4)), which applies on the death not only of the original taxpayer, but also on the deaths of persons deriving title under him, is, by concession, to be made for post-war E.P.T. credits.

Interest on Death Duties

Where interest paid on death duties is repaid by the Revenue, no income tax is deducted, but where the Revenue pay interest (which is usually under an Order of Court and at a higher rate), tax at the standard rate is deducted. It is understood that where payment of estate duty is delayed because of difficulty in realising investments owing to heavy falls in value, a concession may be given of waiving the interest on the duty for a period not exceeding twelve months.

Stock in Trade

All the letters so far received agree with the views expressed in our notes on the subject of valuation of stock-in-trade, i.e., that the common method is to take the lower of cost or market value for each item. It is to be hoped, therefore, that accountants will resist the attempts of the Revenue to upset the common commercial usage.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

Schedule D, Case I—Profits from dealings in life insurance policies—Purchases of policies on lives of other people—Whether assessable as income.

Smith Barry v. Cordy (K.B.D., April 20, 1945, T.R. 163) was an interesting case of novel character. Appellant had been assessed for each of the five years of the period from April 6, 1938, to April 5, 1943, under Case 1 of Schedule D in respect of "profits from dealings in life assurance policies." In 1937 he had determined to sell his investments amounting to about £150,000, and, as no one was dependent upon him, had resolved to spend his capital in his lifetime. Between July, 1937 and February, 1939, he bought for about £100,000, 63 endowment policies on other people's lives and also one policy which was not an endowment policy. It was a carefully worked out scheme by a trained mathematician. He calculated on a clear £7,000 per annum until he was 74, and to cover any later period took out a deferred annuity. The choice of policies was determined by maturity dates.

In 1940, appellant, who was a ferry pilot in the R.A.F., was injured in an aeroplane crash, and, his health being impaired, went to live in India. In June, 1942, he transferred £33,000 worth of his policies as a present to one person, and £2,700 worth to another, and gave instructions for the sale of the rest. The appellant intended remaining in India. But for the fact that he had been engaged in dangerous work and had been injured, he would have carried out his original intention. On appeal, the Crown supported the assessments on the different ground that they represented profits from "an adventure or concern in the nature of trade," and the Special Commissioners had decided that this was so. Macnaghten, J., reversed their decision. He said that

no case had been cited to him in which a person was held assessable where he had bought something with the intention of keeping it, and that it would be an unwarrantable extension of the word "trade" so to hold.

Had the decision been otherwise, the results would be far-reaching—assuming, of course, confirmation elsewhere.

E.P.T.—Statutory percentage upon increase of capital—Rate determined by whether directors have controlling interest—Directors as trustees jointly holding shares—Whether these shares to be taken into account in determining question of control—Finance (No. 2) Act, 1939, Section 13 (3) (9); Seventh Schedule, Part I, para. 10; Finance Act, 1940, Section 55 (5).

The case of *Bibby & Son, Ltd. v. C.I.R.* (House of Lords, May 17, 1945, T.R. 171) was noted in our issues of December, 1943 and September, 1944. In the House of Lords the decision of the Court of Appeal, reversing the decision of Macnaghten, J., was unanimously affirmed. In the Court of Appeal, the Master of the Rolls had excepted the bare trustee from the trustees whose holdings had to be taken into account in considering the question of control. In the House of Lords this point, which did not arise in the case, was not decided, although Lord Simonds clearly indicated his own view. Logically, there would seem to be no case for excluding the shares registered in the name of a nominee.

Although the company has finally won its case, the decision is, in the present writer's opinion, a harmful one, and the Revenue would do well to act upon the first opportunity in accordance with the suggestion conveyed in the judgment of Lord Russell of Killowen,

who said that the taxpayer might wonder why the Legislature had not inserted in the 1939 Act a provision similar to that contained in Section 55 (5) of the Act of 1940. This reads:

"Control of a company which a person had in a fiduciary capacity shall be disregarded for the purposes of this section."

Nevertheless, it would be necessary to amend this wording if other consequences inimical to the Revenue are to be avoided.

Sur-tax—Undistributed income of company—Apportionment—Ability to secure income or assets—Shareholder with control—Quorum at general meeting—Alteration of shareholding and cessation of control during year of assessment—Whether apportionment to shareholder valid—Finance Act, 1922, Section 21—Finance Act, 1927, Section 31 (6)—Finance Act, 1936, Section 20—Finance Act, 1937, Section 14 (3), Schedule III, para. 1 (b)—Finance Act, 1939, Sections 15, 38 (3).

Fendoch Investment Trust Company v. C.I.R. (House of Lords, May 17, 1945, T.R. 177) was noted in our issues of April and September, 1943. In the House of Lords, the decisions of the lower Courts were unanimously affirmed. Lord Simonds gave the only judgment. The issue before the Court had been narrowed down to consideration of the fact that upon December 8, 1939, Mrs. Murray, who had control of the company, surrendered her control. For the year 1939-40, the Special Commissioners had apportioned the whole income of the company to Mrs. Murray and it was contended that to make an apportionment valid it was necessary that the enabling facts must exist upon the last day of the year of assessment. It was further contended that in any case apportionment of the income for the whole year to Mrs. Murray was incorrect. Both contentions were rejected in Lord Simonds' judgment, which contains a detailed analysis of the relevant legislation. He held that under Section 15 of Finance Act, 1939, the Special Commissioners could make an apportionment against a person "able to secure" within sub-section (3) at any time in the fiscal year, and that they had "unfettered and absolute" discretion as to the quantum. He saw no ground upon which it could be said that they had improperly exercised their statutory discretion.

Sur-tax—Settlement—Investment company—Undistributed income of company—Apportionment—Whether income or assets of company applicable for benefit of appellant or his wife—Finance Act, 1922, Section 21—Finance Act, 1939, Sections 14, 15.

Chamberlain v. C.I.R., Talbot Investment Co. v. C.I.R. (C.A. June 18, 1945, T.R. 199), was noted in our issue of November, 1944. Macnaghten, J., had upheld the decision of the Special Commissioners in favour of the Crown whereby the whole income of the Talbot Investment Company for 1939-40 and 1940-41 had been apportioned to Mr. A. G. Chamberlain. The Court of Appeal unanimously affirmed the judgment of Macnaghten, J. Uthwatt, J., gave the only judgment. One interesting and important point was the contention that as under Section 15 (2) of Finance Act, 1939, "the Special Commissioners may apportion to him such part of the income of the company" these words implied a fraction and they were precluded from apportioning the whole. As to this, the judge said:

"This argument involves that, while the allocation of all but a minute fraction . . . would be possible, the addition to that fraction of the financially negligible 'remainder' made the appor-

tionment invalid—or, in other words, there must be a sham as well as a reality—perhaps a natural argument in this case."

He held that the words relied on were capable of being read and ought to be read as "such part, it may be the whole." Leave to appeal further was refused.

Income Tax—Land containing gravel—Licence to take gravel on payment per cubic yard varying with quality—Overburden removed by licensee—Rules of No. III, Schedule A—Whether gravel pit a quarry within Rule 1, one of the "other mines" within Rule 2, or "a concern of the like nature" within Rule 3—Whether the payments rent in respect of an easement within Section 21 of Finance Act, 1934.

The case of *George Wimpey & Co., Ltd. v. Mosley* (Court of Appeal, May 3, 1945, T.R. 183) was noted in our issue of February last. In the King's Bench Division, Macnaghten, J., had agreed with the decision of the Scottish Court of Session in the action of the *Duke of Fife's Trustees* against the same firm, noted in our issue of November, 1943, and had held that a gravel pit was within neither Rule 1, nor Rule 2, nor Rule 3 of No. III of Schedule A and, further, that an easement, in order to be caught by Section 21 of Finance Act, 1934, had to be used in connection with a concern within No. III of Schedule A. As a consequence, he held that in the circumstances of the case, the right to deduct tax, conferred by the section, did not exist. In the Court of Appeal, "at the conclusion of the clear and convincing argument" of counsel for the company, it was considered desirable to invite the assistance of the Attorney-General, the matter being of wide importance to the Revenue. In the result, the decision of the lower Court was unanimously reversed; but the case is to be taken to the House of Lords at the expense of the Revenue.

In these circumstances, the only further comment to be made at present would seem to be one making clear the Revenue interest. The payments made by the company under its licence are either payable in full or less tax. If payable in full, the recipient escapes tax but the company is entitled to deduct the amounts paid as an expense of its trade. As a matter of general principle, the company is a disinterested party.

Income Tax—Charity—Trust for establishing and maintaining Institute in London for Welsh people, this term to include persons of Welsh birth and descent and anybody educated or at any time domiciled in Wales—Object to promote moral, social, spiritual and educational welfare and to foster Welsh language, literature, etc.—Rents of settled properties—Use of premises by Young Wales Association (London), Ltd., company limited by guarantee not formed for charitable purposes—Association appointed by trustees to manage Institute—Rents applied to purposes of Institute—Whether trust for charitable purposes—Whether rents applied for charitable purposes only—Income Tax Act, 1918, Section 37 (1) (a).

The case of *Trustees of Sir Howell Jones Williams Trust v. C.I.R.* (C.A. June 13, 1945, T.R. 193) was noted in our issue of September, 1944. In the Court of Appeal, the decision of Macnaghten, J., and of the Special Commissioners, refusing the Trustees' claim to exemption, was unanimously affirmed. In the judgments of Scott and Lawrence, L.J.J., it was held that the definition in the trust deed was too wide to constitute the trust a public trust for the benefit of a definite community and not one for a fluctuating body of private individuals. In this connection, Lawrence, L.J., referred to the judgment of Lord Tomlin in *Keren v. C.I.R.* ((1932), A.C. 650, 17 T.C. 27). Morton, L.J.,

whilst also pointing out the wide range of possible beneficiaries, held that the properties of the trust were not vested in the trustees as trustees for charitable purposes only. In view of the fact that the judgment could be said to give a more restricted meaning to what is to be deemed a definite section of the community than was given in *Goodman v. Saltash Corporation* ((1882), 7 App. Cas. 633), and later cases, leave to appeal to the House of Lords was given.

Whatever the ultimate decision, with income tax and sur-tax amounting in the case of the highest incomes to 19s. 6d. in the £1, the present charitable exemption has become a grave scandal; and it is to be hoped that when the new Parliament meets some member will press for a White Paper giving the total cost and a list of all the charitable objects in respect of which claims to Income Tax exemption have to be and are also now being admitted. The absurdity and iniquity of the present position is easily shown if it is supposed that four very rich persons are induced to give covenants to pay £10,000 per annum each for a period of seven years for charitable purposes. One of them endows a society to promote the discovery of anti-disease serums, whilst the second one endows a society to work for the abolition of vivisection. The third person endows a society for the conversion of Protestants to Catholicism, whilst the fourth endows a similar society for the conversion of Catholics to Protestantism. At the present time, of the £40,000 income of the four charities all except £1,000 will be provided by the general body of taxpayers; and, even where the object of an endowment would command general approval, the nominal cost to very rich individuals is, to-day, an incentive to extravagant provisions.

Income Tax—Cinema company—Formation of second cinema company—Part of shares of second company subscribed by directors of first company—Sale by directors of their shares in second company—Sale of shares of first company—Successful action by new directors of first company to recover profits made by old directors on sale of shares—Interest awarded as from dates of transactions on sums to be accounted for—Whether income tax deductible from interest—Income Tax Act, 1918, Case III, Rule 1; General Rules 19, 21.

The case of *Regal (Hastings), Limited v. Gulliver and others* (K.B.D., October 12, 1944 (1945), T.R.205), was the sequel to another case with the same title decided by the House of Lords ((1942), 1 All E.R. 378). The plaintiff company had alleged that the profits referred to in the heading had been made *mala fide* and in fraud. It had failed in the King's Bench Division and in the Court of Appeal; but, in the House of Lords, it was held that the defendants' liability was not in fraud but that they had been in a fiduciary position, had made a profit by the use of that position and, applying a rule of equity, must account. Interest was awarded at 4 per cent. per annum from dates in 1935. The first question in the present case was whether the interest awarded was interest liable to tax or was damages. Assuming it to be held to be taxable interest, the second question was whether it was yearly interest and subject to deduction of tax, whilst the third question was whether, assuming tax to be deductible, the rate of tax was the rate in force at the date of the judgment in 1942 or the various rates between 1935 and 1942.

Cassels, J., held that the interest element was yearly interest and that by virtue of section 39 of Finance Act, 1927, tax was deductible at the 1942 rate because

"This is a case of interest which nobody knew would be payable, and the rate of which was unknown

until the House of Lords gave its decision and indicated the rate. I do not think the amount of interest became due until the date of that decision." Consequently, in the words of section 39, "the standard rate for the year in which the payment became due" was 10s. in the pound and the plaintiff company failed.

There are certain points to be noted. One of them was discussed fully by the Court of Appeal in the case of *Westminster Bank Limited v. Riches*, first noted in our issue of June, 1945, namely, whether when interest is included in the amount of a judgment it thereby ceases to have the character of interest. Interest comprised in a judgment is different from interest arising on the judgment amount which in *In re Cooper* (1911, 2 K.B. 550) was held not to be yearly interest. In *In re Sebright* ((1944), 2 All E.R. 547, 23 A.T.C. 190), noted in our issue of January, 1945, the rates of tax to be deducted were held to be those for the years in which an annuity fell into arrear, i.e., the sums had become due but had not been paid, whereas in the present case they had not become due prior to 1942. It is important to note that the arrears in question were paid out of taxed income.

Income Tax—Annuities under will payable "free of all deductions whatsoever and free from income tax at the current rate for the time being deductible at source"—Whether reliefs and allowances to annuitants in respect of income tax retainable by them or to be returned in whole or part to the trustees.

In re Williams (Ch. February 28, 1945, T.R. 209) was another of the cases where the question was whether the annuitants were entitled to retain for their own benefit all their reliefs and allowances in respect of income tax or whether they had to be returned in whole or part to the trustees of the will. Uthwatt, J., held that the case fell within *In re Pettit* (1922, 2 Ch. 765); but his judgment is eminently worth reading as, with characteristic irony, he exposed the absurdity of the present legal position. Pointing out the practical impossibility of such an annuitant making a correct return of his total income, he remarked: "'An annuity,' Mrs. Dashwood observed, 'is a very serious business.' An annuity free of tax cannot have been intended to be as serious as this." In his conclusion, he alluded to the case of *C.I.R. v. Cook*, then under appeal to the House of Lords, which was noted in our issue of October, 1944. By a majority of three to two, that case has been decided against the Revenue; but the report of their Lordships' judgments has not yet been received. They will apparently be found to complicate the problem still further; and the time has surely come for Parliament to be asked to intervene.

Income Tax—Annuity under will payable free of tax—Will made before September 3, 1939—Codicil made after that date whereby annuity increased from £78 to £104—Whether the £104 was provided wholly by the codicil or as to £78 by the will and as to £26 by the codicil—Finance Act, 1941, section 25 (1).

In *In re Dixon* (Ch. June 5, 1945, T.R. 213), the question was substantially the same as that which had been before the Court of Appeal in *In re Sebag-Montefiore* (1944, Ch. 331), where it had been held that where an annuity bequeathed by a will free of income tax is increased in amount by a codicil it is only the increased amount which is not restricted. Vaisey, J., however, pointed out that Lord Greene's judgment in that case showed that fine lines of distinction had to be drawn, the question being, apparently, whether the effect of the codicil was only to add something to the original

provision or was to substitute a new annuity for it. Upon the wording of the codicil before him, he came to the conclusion that the second interpretation was correct and that, therefore, there was no limitation under the Act of the whole or any part of the annuity. The wording which led to this result was the direction by the testatrix that the will should be construed and have effect as if the sum of £104 had been inserted in the relevant clause in place of the sum of £78, and as if a weekly payment of £2 had been inserted in such clause in place of the 30s. therein mentioned. In all other respects she confirmed her will.

Schedule D—Interest awarded under section 3 of Law Reform (Miscellaneous Provisions) Act, 1934, and included, as provided by the same section, in the total sum for which judgment given—Whether "interest of money" within Schedule D of Income Tax Act, 1918—Schedule D, Charging Rule 1 (b), General Rules, 21—Civil Procedure Act, 1833, sections 28, 29.

The case of *Westminster Bank v. Riches* (C.A., June 22, 1945, T.R. 217), was noted in our June issue. In the

Court of Appeal, the judgment of Evershed, J., was affirmed whereby the bank had obtained a declaration that it had satisfied the judgment in the earlier action by paying the interest less tax at 10s. in the £. In the course of his judgment, du Parcq, L.J., pointed out that the case was the first in which the question of whether interest awarded under the Act of 1934 was subject to tax had come up for judicial decision.

The judgments are interesting but, as leave was given to appeal to the House of Lords, an extended note is unnecessary. There were three main points considered by the Court. First, there was the argument that as there was an element of fraud present the sum awarded as interest was not interest but damages and so not taxable as interest. Secondly, that for the interest to be "annual" it was necessary for it to have the quality of being recurrent or being capable of recurrence. Thirdly, there was a point which emerged in argument as to whether, even if the amount in question were interest, it would not be merged in the judgment debt and thereby cease to be interest. None of these questions was answered adversely to the plaintiff bank.

FINANCE

The Month in the City

Thanksgiving Week

The stock markets have not shown any very decisive trend recently, and activity was further curtailed by the opening of Thanksgiving Week. In the gilt-edged market, however, there has been a renewed advance in the long-dated issues, notably 2½ per cent. Consols, on the view that the close of the savings campaign will be followed by a drive towards cheaper money. Much of the speculative interest has been diverted to overseas securities for the time being, with Far Eastern bonds and Argentine railway stocks fairly prominent. In the home industrial market buying has been selective rather than vigorous, but some encouragement has been derived from the moderation of Labour leaders' pronouncements and from the T.U.C.'s suggestion of a cut in E.P.T.

The conversion of Australian stocks bearing interest at over 4 per cent. will be completed on December 1. Holders of New South Wales 5 per cent. 1945-65 stock are being offered a 3 per cent. 1958-60 at 98, which may well be more popular than the 3½ per cent. 1965-69 stock offered at par in respect of previous conversions. The redemption yield of the conversion stock to be issued on this occasion is not materially lower, although its maximum life is nine years less than that of its predecessor.

United Havana Reorganisation

The capital structure of United Railways of the Havana and Regla Warehouses is too complicated for its reorganisation to be studied by many beyond the stockholders immediately concerned, but the scheme proposed raises some points of principle which should be of wider interest. In brief, it is proposed that all arrears of interest on the company's six classes of debenture stock should be cancelled, but that the capital should be preserved intact by exchange into two new classes of debenture. The purpose of introducing two new stocks is that debenture holders may be offered varying proportions of the new in accordance with the varying status of their existing holdings. Owing to the complexity of the rights attaching to the old stocks, it is extremely difficult to say whether the new arrangement is equitable. In some cases, however, justice seems to have been sacrificed to simplicity, and in

particular it appears that the 5 per cent. 1906 debentures are doing rather better than might have been expected, and the 4½ per cent. Cuban Central debentures rather worse. A curious point about the scheme is that although all arrears of debenture interest are being cancelled, no sacrifice is called for from preference and ordinary shareholders, the former of whom remain entitled to their arrears of dividend. The reason why the scheme has been restricted to the loan capital is that current results would permit no more than the payment of interest on the first of the two new debenture stocks. But although the chances for the preference and equity capital are extremely remote under present circumstances, the fact that these two classes are left in full possession of their rights while prior stockholders are asked to make a substantial sacrifice is surely open to criticism.

Barcelona Traction

Another unusual capital plan comes from Barcelona Traction, Light & Power. In this case reorganisation has not been necessitated by any shortage of earnings, but simply because remittances to sterling bondholders have been made impossible by Spain's inability or unwillingness to supply foreign exchange. As a result the company has been unable to meet its obligations on its sterling prior charges, although it has been in a position to make payments in Spain on its junior peseta issues. Under circumstances of this sort, where there is no lack of earning power in currency, it is difficult to see any justification for a reduction in bondholders' claims. It might have been more appropriate to pay as much as exchange circumstances permitted, and to withhold the balance in the hope of an improvement in economic conditions. What is proposed, however, is that both the sterling bond issues should be repaid at par, and that the 5½ per cent. mortgage bonds (on which interest is payable in pesetas) should be repaid at 45. In all cases it is proposed that arrears of interest should be satisfied by the issue of ordinary shares to bondholders. The number of ordinary shares which are to be issued in satisfaction of these claims appears small when the current market price of the ordinary is compared with the outstanding amount of arrears. It should be noted also that it is not a case of existing

ordinary shareholders sacrificing part of their holdings, but of an entirely new issue of shares. Apart from the fact that the number issued appears inadequate compensation for the cancellation of arrears, there are objections to the treatment of the 5½ per cent. mortgage bonds on the capital side. These were originally a sterling issue, and although holders agreed to accept interest in pesetas, they retained their claims to principal in sterling. The capital payment proposed nevertheless appears to be based on the extent of the depreciation in the peseta.

Alberta Settlement

After nine years of default Alberta has made an offer which is likely to be regarded as fully satisfactory by bondholders. All stocks which have matured are to be repaid in full with interest to date, and the only sterling security which will then be left is to be converted into a 3½ per cent. stock, 1950-79. These are favourable terms for the borrower in view of the past status of Alberta, but in general the settlement is too satisfactory to provoke criticism over minor points, particularly as there is some cash compensation for the loss of interest. The contractual rights of the bondholders are thus recognised almost in full, and what

concessions have had to be made have come more from the Canadian Government than from Alberta's creditors.

Argentine Railways

A timely and remarkably outspoken statement on the Argentine railway position has been made by Sir David Kelly, British Ambassador in Buenos Aires. He made it clear that the actions of the Argentine Government had prevented the railways from earning profits and that all suggestions for improvement on the part of the railways themselves had been sidetracked by the authorities. These strong remarks have been more favourably received by the Argentine press than might have been expected. Indeed, the growing hostility to foreign capital, despite the great services which it has rendered to Argentina, is largely admitted. In the past year the Argentine Government itself has made some concessions to the railways designed to prevent any further deterioration in their position, but there are circumstances which make it particularly necessary that the British attitude should be clearly stated. In the first place the law under which the railways operate terminates shortly, and in the second Argentina has large sterling balances which might be employed towards their repatriation.

Points from Published Accounts

Vactric

A year ago the directors of Vactric made a real effort to provide additional information by presenting for the first time a consolidated balance sheet and a combined profit and loss statement. The benefits immediately conferred were, however, limited by the omission of comparative figures in the consolidated accounts, and by the description then applied to the balance at credit of profit and loss account. This was styled the "undistributed profit after appropriations," whereas, in fact, as we pointed out at the time, it was subject to a deduction of £11,250 net needed for the final dividend of 15 per cent. upon the parent company's ordinary capital. The latest accounts remedy both deficiencies. The consolidated accounts now parallel those of the parent company itself by including comparative figures for the earlier year printed in a distinctive colour. And the net cost of the final ordinary dividend is deducted before arriving at the "undistributed profit after appropriations." The latter change has a particular importance since it influences the official calculation of working capital. This is now arrived at by aggregating stock, debtors, tax reserve certificates, British Government securities and cash, and then deducting creditors, tax provisions and the final dividends on both classes of shares. A year ago the net figure was over-stated to the extent of the £11,250 needed for the final ordinary dividend, but the matter has now been rectified. We still feel, however, that the company is doing less than justice to the group's working capital position by bulking current taxation with deferred taxation, and treating the combined item of £59,832 wholly as a current liability. This treatment contrasts with that in the parent's own accounts where only current taxation of £18,439 is set off against the current assets, deferred taxation being shown among the allocated reserves at £28,000.

Smithfield and Argentine Meat

The auditors' report appended to the balance sheet of the Smithfield and Argentine Meat Co. records that no provision has been made in respect of the year for depreciation of factories, machinery, plant and tools, including buildings and plant provided for war purposes;

and the certificate is given subject to this observation and to the adequacy of the past provisions for depreciation. The chairman's statement goes out of the way to point out that the company has been unable to provide for its usual depreciation, and it then explains in great detail the factors which led to a loss of £81,393 being incurred on the year's working despite the omission of a depreciation debit. One of these factors is the lag between the negotiation of contracts for the purchase of Argentine meat by the United Kingdom Government and the fixing of the minimum prices which the frigorificos must pay for cattle. A schedule of the increases in costs shows that, as compared with 1943, the company had to pay £54,933 more by way of additional payments for cattle over and above minimum prices, while labour costs involved it in extra expenditure of £62,282. The total increase on the year amounted to £167,351. Another difficulty is that slow payments for products and the steamer delays involved in shipping them have obliged the company to incur substantial charges by way of bank interest during the years of the bulk Government contracts. In the five years to 1938, the net bank interest charge was £6,583, whereas in the five years to the end of 1944 it was £134,433. The chairman draws the moral that in the last five war years the financing of Government meats added the large sum of £127,850 to the company's working costs. The whole statement constitutes a very frank exposition of the company's affairs. The procedure whereby directors give shareholders a chapter and verse statement in explanation of unfavourable trading results is satisfactory and is to be commended.

Coast Lines

While the provision for N.D.C. and income tax is shown as a separate deduction, the prime profit figure furnished by Coast Lines is still not a very illuminating one. It is described as representing "net earnings for the year [including dividends (gross) received or receivable from subsidiary companies in respect of the year 1944, and other investments] after deducting depreciation on vessels and other property." Separate entries are, however, made for additional dividends (gross)

receivable from subsidiary companies, declared out of profits of earlier years arising on settlement of normal trading matters, and for profit arising out of the sale or loss of assets. And the statement pursuant to Section 126 intimates that the balance of profits retained by subsidiary companies cannot be ascertained definitely owing to pending taxation appeals, but is estimated at about £65,000. The situation would be made much clearer for shareholders were a consolidated profit statement to be provided. There is, too, real reason for urging the presentation of a consolidated balance sheet, for out of total assets of £8,204,240 investments in subsidiary companies, brought in at cost less amounts written off and investment reserve, account for £5,968,924. With shipping shares nowadays valued largely by reference to the holdings of cash and Government securities, which have in general been increased during the war years through insurance recoveries in respect of vessels lost, the composition and amount of the net tangible assets underlying this book valuation are matters of special interest.

Neuchatel Asphalte

An interesting example of the manner in which the termination of hostilities is enabling companies to prepare more precise statements is provided by the accounts of the Neuchatel Asphalte Co. The main asset of this company is the concession of the Travers mine in Switzerland. This has been included for some years in

fixed assets under the description of "assets in countries not under enemy control." In the same category have come interests in certain subsidiaries and the floating assets within the company's immediate reach. A second group of assets has been made up of the net items in countries under enemy control. It has now been possible to re-transfer to the first group a sum of £101,471 representing the book value as at December 31, 1939, of a subsidiary which came under enemy control in 1940. There still remain in the second group net assets formerly under enemy control at a book value of £131,837, representing the subsidiary companies and branches abroad which, though now freed, have not as yet been able to send the parent company the accounts and complete information necessary to include the up-to-date figures under the normal headings. Perhaps in reflection of the changed position, the trading profit this time includes a surplus of approximately £20,000 applicable to previous years, but only determinable in the year to account. The company follows the practice of including in the trading profit all earnings of the subsidiaries, and it accounts for any proportion not distributed by those companies by making a "transfer to reserve for undistributed profits of subsidiary companies." This amounts for 1944 to £11,484. The method is helpful to those versed in accountancy practice, but the significance of the description applied to the transfer to the special reserve may be overlooked by a good many shareholders.

LAW

Legal Notes

COMPANY LAW

Issue of shares at a discount—No Court sanction—Rectification.

In *Re Derham and Allen, Ltd.* (61 T.L.R. 536), Cohen, J. granted a petition of unusual character. The application was under Section 47 of the Companies Act, 1929, for leave to issue shares at a discount. The company was a private one, with nominal capital of £25,000 in 25,000 shares of £1 each. Before August, 1942, only 22,000 had been issued. J. H. A. wished to retire from the company and to sell his 4,850 shares. By the articles, such shares were to be offered to the other members at a fair value to be fixed by the auditors. It was agreed to sell them at 14s. 8d., the price fixed by the auditors. The purchaser, W., stipulated that the unissued shares were to be issued to him at the same price. At that time it was realised that the issue by the company of its 3,000 unissued shares at a discount could only be carried out with the sanction of the Court. In May, 1942, at a general meeting attended by all four members of the company, the transfers of J. H. A.'s shares were executed. The meeting was then adjourned until August, 1942. At that adjourned meeting it was resolved that W. should be allotted 3,000 shares at 14s. 8d. a share. By an oversight in the office of the company's solicitor, no steps were taken to secure the sanction of the Court, although the solicitor communicated with the Capital Issues Committee. He then informed the company's auditors that the consent of the Treasury would not be necessary and that it was in order to issue the shares to W. W.'s name was entered on the register as the holder. In the return of allotments for 1942, the 3,000 shares were included as shares fully paid up in cash without reference to the discount. Only in 1943 did the auditors, in preparing the annual return for that year, realise that the Court's consent to the issue of the shares at a discount had not been obtained, and that

the return of allotments for the previous year was therefore inaccurate. The company were then legally advised that the shares could not be regarded as being fully paid and that W. was liable to pay the company an amount equal to the discount unlawfully allowed. W. refused to assume that liability. In an attempt to rectify the position, the company passed a resolution in general meeting in November, 1943, cancelling the purported issue to W. and directing his name to be removed from the register as holder thereof. It then proceeded to pass a fresh resolution for the issue of the 3,000 shares to W. at the discount originally agreed, and petitioned for the Court's sanction. Cohen, J., held that in the circumstances he was justified in finding that W. assumed that the legal requirements of Section 47 as to the issue of shares at a discount had been duly carried out. Therefore the case was a proper one for the Court to order the register to be rectified. In this case the company had taken on itself to rectify the register without any motion to the Court for that purpose. There was authority for the proposition that where a person on the register of members had a right to rectification, and the company itself recognised that right, it was not essential for a valid rectification that an order of the Court should be obtained. He wished to say nothing to encourage directors to carry out rectification of the company's register without an order of the Court, obtained in proceedings where the right of rectification was duly established. In the ordinary case, the protection of the Court's order was essential to any rectification of the register by the removal of a name of a registered holder of shares. But in this case it was inevitable that the matter should come before the Court, because it involved the sanction of the Court to the issue of shares at a discount. He was satisfied that no one would be prejudiced and would not require the mere formality of a motion to rectify the register. Cohen, J., therefore, made the order asked for, namely, that the issue by the company of 3,000 of its £1 shares

in the capital, at a discount of 5s. 4d. a share, be sanctioned by the Court.

EXECUTORSHIP LAW AND TRUSTS

Deaths in air-raid—Presumption that younger survived elder.

The curious, but important, case of *Hickman v. Peacey*, previously reported in ACCOUNTANCY, has occupied the close attention of the House of Lords, who, by a majority of three to two (Lord Simon, L.C., and Lord Wright dissenting) reversed the decision of the Court of Appeal. Two brothers, aged 73 and 66, took refuge in a basement during an air-raid in 1940. A bomb made a direct hit on the shelter and killed both brothers and all the other occupants. Both brothers had made wills, each naming the other brother as a beneficiary. It was therefore important to determine which in law survived the other. Section 184 of the Law of Property Act, 1925, provides that in all cases when two or more persons have died in circumstances rendering it uncertain which of them survived the other or others, then, subject to any order of the Court, it shall be presumed, for all purposes affecting the title to property, that the younger survived the elder. By a majority of two to one, the Court of Appeal held that the two brothers had died simultaneously, and that therefore the statutory presumption of survivorship was excluded. Lord Simon and Lord Wright agreed with that decision. Lords Macmillan, Porter and Simonds, however, held that when the circumstances were such that it could not be ascertained that one of the deceased persons survived the other, the uncertainty postulated in the Law of Property Act existed; that it had not been established in the present case that there was no element of uncertainty; and that, therefore, the statutory presumption of survivorship applied. (1945, 2 All E.R. 215.)

Wills—Construction—Direction to divide equally between nephew and children of cousin absolutely—Division per capita.

The rule of construction is that, *prima facie*, a direction to divide between A. and the children of B. means a division *per capita* among the whole class, consisting of A. plus all B.'s children. In *Re Alcock* (1945, 1 All E.R. 613), by her will a testatrix left her residuary estate "upon trust to be divided equally between my nephew R.S. and the three children of my cousin X. absolutely." It was proved that X. had four children and was agreed that for all purposes the will should be treated as referring to X.'s four (not three) children. The question for decision was whether the direction to divide equally referred to a division *per capita*, and so, whether the nephew R.S. received one-half or one-fifth of the residue. Evershed, J., held that, having regard to the special circumstances of the case and the use of the word "absolutely," there was nothing to displace the application of the *prima facie* rule. Therefore the residuary estate was divisible between all five participants in equal shares.

Defeasance clause in will—Annuity vested in custodian of enemy property.

In *Re Harris* (1945, 1 All E.R. 702) the facts were:—The testatrix bequeathed an annuity of £52 for life to G.R. She directed that if the annuitant should commit, permit or suffer any act, default or process whereby, but for this present provision, the annuity or part thereof would or might have become vested in or payable to any other person, the annuity should thereupon absolutely cease and determine as if the annuitant were dead. It was admitted that the annuity had in fact become payable to the custodian of enemy prop-

erty, because at the date of the will and at all material times thereafter, the annuitant was resident in France, and was, for the provisions of the Trading with the Enemy Act, 1939, an enemy. Under the Trading with the Enemy (Custodian) Order, 1939, the annuity, unless forfeited, would be payable to the Custodian of Enemy Property. The matter for decision was whether the vesting in the Custodian could be said to be suffering a "process" whereby the annuity become payable to someone else. Vaisey, J., held that on the true construction of the will and in the events which had happened, the annuity had not ceased or determined but was still payable. Although the annuity had become payable to the Custodian, the annuitant could not be said to have committed any act, nor had she committed, permitted or suffered any default; nor had there been any process which resulted in the annuity becoming payable to the Custodian, because the word "process" in the will meant a legal process of a limited kind, namely, the doing of something in a proceeding in a civil or criminal court. There was therefore no forfeiture.

INSOLVENCY

Bankruptcy—After-acquired property—Conversion—Solicitor and client.

In *Re Samuel* (1945, W.M. 127), Evershed, J., decided a question of the title of a trustee in bankruptcy to property in the following circumstances:—In October, 1941, the bankrupt transferred to her husband the property in jewellery which she had deposited with him as security for indebtedness and which was held for him by a bank. She was made bankrupt in July, 1943, and a trustee was appointed. The husband subsequently wrote authorising his solicitors to release the jewellery to her when his divorce decree was made absolute. By arrangement, the bankrupt's solicitors then had the jewellery handed over to them. When the decree absolute was made, the bankrupt authorised a member of her firm of solicitors to hand the jewellery to a servant of hers, for disposal for the education of her son. The jewellery was duly handed over to the solicitor and to the servant. The solicitor, at the servant's request, put it in safe custody. In due course the jewellery was sold, and the solicitors' taxed costs were paid out of the proceeds. In February, 1945, the trustee's solicitors asked the bankrupt's solicitors to deliver up the jewellery, as it was after-acquired property of the bankrupt, or else to pay its value. On refusal, the trustee asked for a declaration that the bankrupt's solicitor had converted the jewellery to his own use. Evershed, J., held that the solicitor received the jewellery on behalf of his principal, the bankrupt, and, whatever her intention, he was bound to receive it as her agent or minister. At the moment that the bankrupt received the jewellery, the trustee's title to it was complete. It was her duty to account to him for it, but it did not follow that she had no right or interest in its possession. A *bona-fide* purchaser from her would get a good title, though she might not have had a right to sell in defeasance of the trustee's title and in breach of her duty under Section 22 of the Bankruptcy Act, 1914. The solicitor's acts were ministerial and did not amount to conversion. It was not his duty to withhold the jewellery from her. If it were, that would be placing on solicitors a burden wholly impossible and against the best interests of the administration of justice; it would be an unwarranted interference between them and their clients. The loss or conversion had not been established and the solicitor in question had not done any other act making him liable to account to the trustee for the value of the jewellery. The motion therefore failed.

Society of Incorporated Accountants

EXAMINATIONS

The next examinations of the Society will be held on Wednesday, Thursday and Friday, December 19, 20 and 21, 1945. The examinations will again be held at Taunton School, Somerset (by kind permission of the Governors), and at Manchester, Leeds, Glasgow, Dublin and Belfast.

The last date for receiving applications is Tuesday, October 23, 1945.

RESULTS OF EXAMINATIONS

AUGUST, 1945

Passed in Final

Alphabetical Order

ADAMS, JOHN BARCLAY, clerk to Theo. S. Sheard, Vickers & Winder, Liverpool.
 BROWN, GEOFFREY HOWARD, clerk to C. Percy Barrowcliff & Co., Middlesbrough.
 CHALMERS, WILLIAM HUTCHISON, clerk to A. M. Wilson (James Condie & Co.), Dunfermline.
 CURWAIN, ROBERT DAWSON, clerk to Singleton, Fabian & Co., London.
 DILLEY, FRANK KENNETH, clerk to F. W. Clarke & Co., Leicester.
 DEANE, LAWRENCE ARTHUR IMRIE, clerk to Hatfield, Dixon & Co., Sanderstead, Surrey. (On National Service).
 EMMS, HARRY, County Accountant's Department, Derby.
 GARRETT, MORGAN RICHARDS, clerk to F. J. Warren & Son, Haverfordwest.
 GILLINGHAM, WESLEY JOHN, City Treasurer, Chichester.
 GRAY, RANDAL ALEXANDER, clerk to D. W. Flynn (Belton & Co.), Dundalk.
 GUEST, OWEN, clerk to Whinney, Smith & Whinney, Manchester.
 GUTHRIE, DAVID DAWYCK, clerk to James Condie & Co., Dunfermline.
 HILL, DAVID HOLLINS, clerk to Davey & Padget, Wakefield.
 HUMPHREYS, ERIC WILLIAM, clerk to Binder, Hamlyn & Co., London.
 IRVING, RICHARD STAVERT, clerk to W. G. Lithgow & Co., Southport.
 MEADE, ERIC CUBITT, clerk to N. Keith Silver (Cassleton Elliott & Co.), London. (Serving with H.M. Forces.)
 PERKINS, GERTRUDE SARAH MAUD, clerk to Ethel Watts (E. Watts & Co.), London.
 REES, MARK JACOB, LL.B., Practising Accountant, Leicester.
 RUSSELL, JOHN RANSON, clerk to S. A. Martin, Dublin.
 SHANNON, CHARLES DENNIS, clerk to Cooper & Kenny, Dublin.
 SHEPHERD, JOHN STRAITON, Borough Treasurer's Department, South Shields.
 SPINK, HARRY, clerk to Proctor & Proctor, Nelson.
 SPOTTISWOODE, COURTENAY JOHN, clerk to Cash, Stone & Co., London.
 STOKES, EDWARD JOHN, clerk to Holmes-White, Herbert & Co., London.
 SWEETING, EDWARD, clerk to Deloitte, Plender, Griffiths & Co., London.
 THOMPSON, DENNIS JOHN, clerk to Beaton, Hewson & Co., London.
 WEBBER, DOUGLAS GEORGE, Deputy Borough Treasurer, Hampstead, London.
 WITHERS, GEOFFREY OWEN, clerk to Walter Johnson & Partners, Swindon.

SUMMARY :—

28 Candidates Passed.
 39 Candidates Failed.

67 Total.

Passed in Intermediate

Alphabetical Order

AYLMER, JEAN MARGARET, B.A., Borough Treasurer's Department, Hemel Hempstead, Herts.
 BOWDEN, HARRY THORNLEY, Public Trustee Office, London.
 BOYNE, MICHAEL FRANCIS, clerk to R. J. Kidney (Robert J. Kidney & Co.), Dublin.
 BROOKS, NEVILLE, clerk to C. M. Merchant & Son, Bury.
 CLARKE, ARTHUR BRANDON, clerk to Robinson, Coulson, Kirkby & Co., Scarborough.
 CLOUGH, WILFRED, clerk to F. G. Schofield & Son, Oldham.
 DALY, PATRICK JOSEPH, clerk to E. Halley (T. R. Chambers, Halley & Co.), Waterford.
 GEORGE, FREDERIC BRAND, clerk to H. V. Davis (Davis & Benjafield), Wells, Somerset.
 GREEN, ALBERT GEORGE, clerk to Holmes & Halford, Norwich.
 GROOME, GERALD HUNTLEY, clerk to Norman Paine (Jacob & Haynes), London.
 HALL, STANLEY, clerk to V. H. Collinge (J. H. Lord & Co.), Bacup.
 HARRIS, DERRICK PETER, clerk to C. M. Tustain (Thomas May & Co.), Leicester.
 HODSON, GORDON MARTIN, clerk to Button, Stevens & Witty, London.
 HOUSLEY, HARVEY WILLIAM, clerk to Prior & Palmer, Nottingham.
 HUNT, KENNETH MASTERMAN, Borough Treasurer's Department, Redcar.
 JACKSON, KENNETH VICTOR, clerk to H. A. F. Brookes, Liverpool.
 JONES, ANNABEL ENGLISH, clerk to J. H. Whyte, South Shields.
 JONES, THOMAS OWEN, clerk to Harper, Kent & Wheeler, Shrewsbury.
 LAUNDY, JOHN CHARLES ARTHUR, clerk to Rawlinson & Hunter, London.
 McEVoy, SEAMUS PATRICK, clerk to J. J. Bastow & Co., Dublin.
 MAIN, DONALD IAN, clerk to Pannell, Crewdson & Hardy, London.
 MALLETT, GEORGE RUPERT, clerk to Barton, Mayhew & Co., London.
 MASON, GEORGE, clerk to Frederick Griffith, Kendal.
 MITCHELL, ERIC FRED, clerk to Denis J. Rawlinson (Denis Rawlinson & Co.), Peterborough.
 MORRIS, WINSTON FREDERICK DAVID, Borough Treasurer's Department, Middleton, near Manchester.
 O'DONOGHUE, DONAL RORY, clerk to John Woods (Magee, Woods & Hillan), Dublin.
 PAYLING, HAROLD EDWARD, clerk to F. W. T. Mills, Wakefield.
 PAYNE, LEONARD COLIN, clerk to Bernard Phillips & Co., London.
 PENN, GEORGE WILLIAM, clerk to Barton, Mayhew & Co., London.
 PETERS, GEORGE, clerk to Carter & Co., Birmingham.
 PROOM, THOMAS JOHN, clerk to L. A. Watson (Clarkson & Rumble), London.
 ROBERTS, JOHN FREDERICK, clerk to Blease & Sons, Liverpool.
 ROSS, JOHN SINCLAIR, clerk to Ford, Rhodes, Williams & Co., London.
 ROWAN, JACK, clerk to Leslie Lewis (Ransom Harrison & Lewis), Sheffield.
 RUSHTON, FRANK, Borough Treasurer's Department, Smethwick.
 SAINSBURY, RONALD JOHN, City Treasurer's Department, Peterborough.
 SCHOLLAR, JOSEPH WAY, clerk to C. H. Brand (Smallfield, Rawlins & Co.), London.

SHAW, WILLIAM MACALISTER, Deputy Borough Treasurer, Widnes.

SHEPHERD, GEORGE, B.A., Borough Treasurer's Department, Hyde, Cheshire.

TODD, NORMAN STANLEY, clerk to John Hutchinson (Greaves & Co.), Newcastle-on-Tyne.

VAUGHAN, PHILIP MULVANY, clerk to F. Sewell Bray (Tansley, Witt & Co.), London.

SUMMARY :—

41 Candidates Passed.

74 Candidates Failed.

115 Total.

Passed in Preliminary

Order of Merit

MOSES, RAYMOND, 14, St. David Street, Gelli-Pentre, Rhondda. (*First Place Certificate.*)

Alphabetical Order

ALLEN, ERIC THOMAS WILLIAM, 90, Beverstone Road, Thornton Heath.

ANDERSEN, REGINALD ERNEST, 67, Pinner Park Avenue, Harrow.

BARLOW, ROBERT SIDNEY, 102, Benhurst Gardens, Selsdon, Surrey.

BARUA, SAMBHU PRASAD, 69, Glebe Way, Hornchurch.

BIRD, ARTHUR WILLIAM, Station House, Acklington, Morpeth.

CASSIDY, BRENDAN PATRICK, 92, Old Cabra Road, Dublin.

CATHCART, HOWARD, 39, Market Street, Omagh.

CHAMBERLAIN, RONALD, "Rosily," Grosvenor Road, London, N.3.

CHARITY, MICHAEL SKELTON, 149, Carshalton Park Road, Carshalton Beeches.

CHASTON, PETER HARDING, 31, Clarence Road, Wimbledon, London, S.W.19.

CLUETT, NORMAN VIVIAN, "Hildegard," 93, Hamstel Road, Southend-on-Sea.

CRANE, ROBERT EWART MONTAGUE, 55, Park Avenue, Bromley, Kent.

CUTTS, WILLIAM NOEL, 21, Oakfields Road, West Bridgford, Nottingham.

EALES, BASIL JOHN, "Alabama," Eden Grove, Byfleet, Surrey.

ELLIOTT, EMRYS GEORGE, 10, Atlas Place, Canton, Cardiff.

FITZHUGH, DEREK ALFRED, 4, Brockley Avenue, Stanmore, Middlesex.

GARDINER, RICHARD ERNEST, 56, Kirklands Road, Spring Bank West, Hull.

GARLAND, PATRICK GEORGE, 23, May Street, Drumcondra, Dublin.

HARRIS, ALLAN WILLIAM FRANK, 54, Great Stone Road, Northfield, Birmingham, 31.

HULSE, WILLIAM GEORGE EDWARD, 529, Fulham Road, Walham Green, London, S.W.6.

HUNTER, ALAN NATHANIEL, 146, Canon Cockin Street, Hendon, Sunderland.

JORDAN, JAMES ERIC, 492, Inglemire Lane, Hull.

KERR, JAMES R., Main Street, Portglenone, Co. Antrim.

LANGLEY, MAURICE WILLIAM, 92, Oaklands Road, Bexleyheath.

LEVEY, EDWIN ARTHUR, 48, Port Vale, Hertford.

MCCRORY, THOMAS PATRICK, Farm Cottage, Drumaness, Ballynahinch, Co. Down.

OATES, GEOFFREY, 12, Norborough Road, Doncaster.

PRESS, JAMES, 94, Edinderry, Shaw's Bridge, Belfast.

RACKHAM, RAYMOND, "Eastview," Wallingfen Lane, Newport, Brough, E. Yorks.

RUSSELL, STANLEY, 48, Darby Road, Wednesbury, Staffs.

STAGGS, HENRY FREDERICK, 125, Star Lane, Canning Town, London, E.16.

STYLES, RONALD ALFRED, 13, Adrian Avenue, Harolds Cross, Dublin.

THOMAS, DENNIS RHYS, 39, Tallis Street, Cwmparc, Treorchy, Rhondda.

WILLIAMS, JOHN ROBERT, 117, Little Ilford Lane, Manor Park, London, E.12.

WILTSHIRE, GEORGE HENRY, 27, Farlington Road, North End, Portsmouth.

WURCELDORG, PETER VALENTINE, 42, Christchurch Road, Bournemouth.

SUMMARY :—

1 Candidate Awarded Honours.

36 Candidates Passed.

32 Candidates Failed.

69 Total.

DISTRICT SOCIETIES

LONDON AND DISTRICT AND LONDON STUDENTS' SOCIETIES

Joint Programme of Lectures for the Autumn Session 1945

1945.

September 18: "Income Tax Act, 1945," by Mr. H. A. R. J. Wilson, F.C.A., Incorporated Accountant. Chairman, Mr. C. V. Best, Vice-Chairman of the District Society.

October 9: "Interpretation of Information in the Financial Press," by Mr. O. R. Hobson, City Editor, *News Chronicle*. Chairman, Mr. D. Mahony, President of the Students' Society.

October 22: Discussion: "The Cohen Report as it affects Accountants," opened by Mr. Andrew Clark, K.C. Chairman, Mr. T. H. Nicholson, F.C.A., Incorporated Accountant.

October 30: "Balance Sheets—Final Considerations," by Mr. W. J. Back, Incorporated Accountant. Chairman, Mr. A. V. Hussey, Vice-President of the Students' Society.

November 20: "Investigations in relation to Contracts," by Mr. W. L. Karamelli, O.B.E., Incorporated Accountant, Principal Accountant, Contract and Purchase Department, Admiralty. Chairman, Mr. S. T. Morris, Incorporated Accountant.

November 27: Discussion: "Excess Profits Tax—Special Points and Terminal Problems," opened by Mr. A. Stuart Allen, Incorporated Accountant. Chairman, Mr. Walter Holman, Incorporated Accountant.

December 11: "Schemes for varying Shareholders' Rights," by Mr. Francis Whitmore, City Editor, *Daily Telegraph*. Chairman, Mr. Collin Brooks, Editor of *Truth*.

These meetings will be held at the Hall of the Institute of Journalists, 2-4, Tudor Street, Blackfriars Station, London, E.C.4, at 5.30 p.m.

BIRMINGHAM

Annual Report

The membership includes 357 Incorporated Accountants and 272 students. About 130 members and students are serving in H.M. Forces: to them best wishes are extended.

Mr. B. R. Pollott, Dudley, obtained First Place Certificate in the Intermediate Examination in December, 1944.

The Committee has considered the following subjects in conjunction with the Ministry of Labour and National Service, and has agreed to form panels as occasion arises:—

(i) Re-settlement Advice Service.

(ii) Assistance and advice to ex-service men and women in regard to openings and advice in the accountancy profession.

(iii) Educational facilities for those returning from H.M. Forces.

The Consultative Committee is still available to assist and advise members. Many varied and difficult problems have been dealt with during the year.

The Committee is grateful for the valuable work of Mr. A. P. Bardell, F.S.A.A., as Honorary Librarian for so many years, and for his continuing interest.

Six lectures were held. Thanks are extended to the Birmingham and District Society of Chartered Accountants and the Institute of Cost and Works Accountants for invitations to two further lectures.

The Committee record special thanks to the members who attended at the Birmingham Citizens' Advice Bureaux to advise applicants on taxation difficulties.

MANCHESTER

The annual meeting of the Incorporated Accountants' Society of Manchester and District was held on September 17. Mr. Frank Harrop, President, occupied the chair.

The report and accounts were unanimously approved.

The retiring members of the Committee were re-elected, and Mr. S. M. Rix and Mr. Victor A. Bell were elected to fill vacancies. Mr. W. H. Hill, A.S.A.A., was elected Honorary Auditor, in succession to Mr. V. A. Bell, elected to the Committee.

A vote of thanks to the President, Honorary Secretary, and other officers was unanimously accorded on the motion of Mr. Slater, seconded by Mr. Berman.

At a subsequent Committee meeting the following officers were re-elected: President, Mr. Frank Harrop, F.S.A.A.; Vice-President, Mr. J. D. Hamer, F.S.A.A.; Hon. Secretary, Mr. C. Yates Lloyd, F.S.A.A.; Hon. Treasurer, Mr. G. W. Street, F.S.A.A.; Hon. Librarian, Mr. J. N. Struthers, F.S.A.A.

The Honorary Secretary is keeping a record of members desiring appointments and of positions available in the Manchester district.

Annual Report

Three successful lectures were held, all of which were followed by discussion. In addition, there were two members' discussion meetings, at which the attendance was less satisfactory.

A Students' Committee has been formed, and some meetings held. The Committee are anxious to assist students in every way, and will welcome suggestions, particularly from those returning from H.M. Forces.

Six students passed the Final Examination during the year, and five the Intermediate.

A Dinner was held in July, 1944. The guests included Mr. Richard A. Witt, President of the parent Society, the Lord Mayor of Manchester, and the Mayor of Salford.

The membership includes 426 Incorporated Accountants and 148 students. A number of students are known to be serving in H.M. Forces.

Syllabus of Meetings

- 1945
- Oct. 12. Annual Dinner.
 - Oct. 26. Members' discussion meeting: "Tax and General Problems."
 - Nov. 2. Students' "Quiz" meeting.
 - Nov. 16. "The Important Provisions of the Income Tax Act, 1945," by Mr. J. Woods, A.C.A. Joint meeting with the Institute of Taxation.

YORKSHIRE

Annual Report

The total membership is 626, including 374 Incorporated Accountants and 252 students. Twenty-one members and 149 students are serving with H.M. Forces. The Committee regret the loss by death of five members.

During the year two parties visited the head office of Thrift Stores, Ltd., Kirkstall, at the invitation of the chairman and directors, for a lecture and demonstrations on "The Advantages of Mechanised Accountancy." A lecture on "Design of Accounts," by Mr. F. Sewell Bray, F.C.A., F.S.A.A., was arranged jointly with the Bradford and District Society and was held at Bradford.

Two students were successful in the Final Examination and two in the Intermediate. The District Society's prize

of £5 5s. was presented to Mr. J. D. M. Ellis, who won the First Certificate of Merit and Prize in the Final.

Sixty-one books have been purchased for the District Society's library.

PERSONAL NOTES

Captain George Frederic Meyer, R.A., has been awarded the Military Cross for gallant and distinguished services in Italy. At the time of joining H.M. Forces, Captain Meyer was serving articles with Mr. A. T. Keens, of Messrs. Keens, Shay, Keens and Co., Harrow.

Captain J. O. M. Williams has been mentioned in Despatches for gallantry in North-West Europe. Captain Williams is a son of Mr. J. Wallace Williams, F.S.A.A., Cardiff, with whom he was serving articles at the time of joining H.M. Forces.

Flight Lieutenant Gordon W. Williams, another son and former articled clerk of Mr. J. Wallace Williams, F.S.A.A., was awarded the D.F.C. We regret to learn that Flight Lieutenant Williams was killed in action in 1944.

Mr. Harold Thompson, Incorporated Accountant, has commenced public practice at 87, Borough Road, Middlesbrough.

The partnership hitherto subsisting between Mr. C. H. Tranmer, B.Com., F.S.A.A., and Mr. Harold M. Preston, A.S.A.A., has been dissolved. Mr. Tranmer has admitted into partnership Mr. H. Norman Raine, A.S.A.A., and the new firm will continue the practice from 389, Cottingham Road, Hull, under the style of Tranmer and Raine, Incorporated Accountants.

Messrs. Goldby, Panchaud and Webber, Prudential Assurance Building, 90, Fox Street, Johannesburg, have taken into partnership Mr. G. W. A. Chubb, C.A. (S.A.), A.S.A.A. The name of the firm will be unchanged.

Mr. R. J. Davidson, Incorporated Accountant, has commenced public practice at 13, Bridge Street, Aberdeen.

Mr. Joseph Deakin, Incorporated Accountant, has been appointed Borough Treasurer of Paddington.

REMOVALS

Mr. R. Verity, Incorporated Accountant, has removed his offices to Ocean Chambers, Lowgate, Hull.

Messrs Coles and Co. have removed their offices to 20, Copthall Avenue, London, E.C.2.

OBITUARY

WILLIAM EDWARD THOMAS

The death occurred suddenly of Mr. W. E. Thomas, A.S.A.A., who had been in the service of Messrs. Alban and Lamb, Incorporated Accountants, Cardiff, for twenty-one years. During that period he took a keen interest in the activities of the Cardiff Students' Section of the South Wales District Society; he was appointed a member of the Students' Committee in 1935, and acted as Vice-Chairman from 1939 to the date of his death. He was admitted to membership in the Society of Incorporated Accountants in 1939. His work on behalf of the students will always be remembered, and his guidance and enthusiasm will be greatly missed by those who are arranging for post-war professional education in South Wales and Monmouthshire. Mr. Thomas was an ardent sportsman, and was for many years the captain of the Glamorgan Wanderers' Rugby Football team.

BOOKS RECEIVED

Fundamentals of Office Method and Forms Design.

By Laurence H. Bunker. (Sir Isaac Pitman & Sons, Ltd., London. Price 12s. 6d. net.)

Income Tax under Schedule E. By James S. Heaton, Incorporated Accountant. (Jordan & Sons, Ltd., London. Price 15s. net.)

Auditing. By the late Lawrence R. Dicksee, M.Com., F.C.A. Reprinted sixteenth edition by S. W. Rowland, LL.B., F.C.A. (Gee & Co. (Publishers), Ltd., London. Price £2 10s. net.)

Business Finance and Accounts. By Donald Cousins, Chartered Accountant. (Gee & Co. (Publishers), Ltd., London. Price 15s. net.)